ANNUAL REPORT · 1968

Massey-Ferguson Limited

In a bid to capitalize on one of North America's fastest growing family fun activities, Massey-Ferguson has entered the snowmobile market with a safe, high performance machine named the *Ski Whiz*. Capable of skimming over the snow at speeds up to 50 miles an hour, the *Ski Whiz* is the latest in a line of special MF products which includes garden tractors and other lawn and garden care equipment.

The *Ski Whiz* comes in two models differing only in engine size: the 372 cc rated at 23.5 horsepower, and the 297 cc at 17.5 horsepower. Both models are designed mainly for family enjoyment and will comfortably seat two adults and a child. An especially low centre of gravity adds an extra measure of safety and skis and rear suspension are adjustable to suit passenger weight and snow conditions.

contents

cover

Perkins V8.510 diesel engines advance along the highly automated production line at the Perkins Group factory in Fletton, England. The recently introduced V8.510, at 185 horsepower the largest unit in the Perkins line, has been widely accepted by major manufacturers of highway, farm and industrial equipment. For more on Massey-Ferguson's Engines Group, turn to page 12.

The Annual Meeting of Shareholders will be held in the Canadian Room, Royal York Hotel, Toronto at 12 o'clock noon on March 3, 1969.

TRANSFER AGENTS

National Trust Company
Toronto, Vancouver, Winnipeg

Canada Permanent Trust Company
Montreal

The Canadian Bank of Commerce Trust Company
New York

The British Empire Trust Company, Limited
London, England

REGISTRARS

Crown Trust Company
Toronto, Montreal, Winnipeg, Vancouver

Morgan Guaranty Trust Company of New York
New York

Lazard Brothers & Co., Ltd.
London, England

Massey-Ferguson's recent major breakthrough in tractor engineering — *Pressure Control* — shown being demonstrated at the 1968 Royal Show, Stoneleigh, England. *Pressure Control* allows the tractor operator, at his discretion, to transfer weight from a towed implement to the rear wheels of the tractor, thus providing more traction as needed. This development is an extension of the original *Ferguson System* which revolutionized tractor design by making possible weight transfer from mounted implements. The Royal Show is one of the largest agricultural exhibitions in the world attracting exhibitors and spectators from around the globe.

Massey-Ferguson Limited

200 UNIVERSITY AVE., TORONTO 1, CANADA

DIRECTORS

*Albert A. Thornbrough
President and Chief Executive Officer

*E. P. Taylor
Chairman, Executive Committee

The Marquess of Abergavenny
Henry Borden, Q.C.
H. J. Carmichael
Lord Crathorne

Hon. Leslie M. Frost, Q.C.
Charles L. Gundy
Gilbert W. Humphrey
John D. Leitch

*A. Bruce Matthews
*John A. McDougald
*Maxwell C. G. Meighen
M. I. Prichard

John G. Staiger
H. A. Wallace
T. M. Ware
*Colin W. Webster

**Member Executive Committee*

CORPORATE MANAGEMENT

A. A. Thornbrough
President and Chief Executive Officer

A. A. Thornbrough
Group Vice President
Farm Machinery (Acting)

J. E. Mitchell
Group Vice President
Industrial & Construction Machinery

M. I. Prichard
Group Vice President
Engines

J. G. Staiger
General Vice President
Administration

H. A. Wallace
Vice President
Manufacturing

J. A. Belford
Vice President
Personnel & Industrial Relations

J. J. Jaeger
Vice President
Research & Development

H. G. Kettle
Vice President
Public Relations

R. W. Main
Secretary

J. P. Wleugel
Treasurer

S. R. Wilson
Director Logistics
Comptroller (Acting)

H. A. R. Powell
Managing Director
Massey-Ferguson Holdings Limited

L. J. Boon
Director
Special Operations

P. J. Dixon
Director Management
Information Systems

J. A. Evans
Director
Legal Services

C. L. Baker
Director Engineering
Farm Machinery Group

C. J. Hind
Director Engineering
Engines Group

J. Winstanley
Director Marketing
Engines Group

J. D. Goodson
Director Marketing
ICM Group

T. G. Granryd
Director Engineering
ICM Group

OPERATIONS MANAGEMENT

FARM MACHINERY; INDUSTRIAL AND CONSTRUCTION MACHINERY

AUSTRALIA—H. P. Weber, General Manager

BRAZIL—J. E. Williams, General Manager

FRANCE—H. Vajk, General Manager

GERMANY—Dr. R. Durrer, General Manager

ITALY—Dr. F. Fadda, General Manager

NORTH AMERICA—W. G. Slife, Vice President and General Manager—Farm Machinery

SOUTH AFRICA—Dr. L. Knoll, General Manager

UNITED KINGDOM—J. W. Beith, Vice President and General Manager

EXPORT—P. J. Wright, Vice President and General Manager

INDUSTRIAL AND CONSTRUCTION MACHINERY

ITALY—Dr. F. Fadda, General Manager

NORTH AMERICA—J. E. Mitchell, General Manager

UNITED KINGDOM—D. A. Elliott, General Manager (Acting)

ENGINES

General Managers responsible for area coordination

NORTH AMERICA—G. E. Smith

NORTHERN EUROPE—T. H. R. Perkins

SOUTHERN EUROPE—P. Poniatowski

LATIN AMERICA—V. O. Griffin

INTERNATIONAL OPERATIONS—H. Lymath

NORTH AMERICAN FINANCE OPERATIONS

C. D. Abarr—General Manager

Last March members of Massey-Ferguson's Corporate Strategy Committee paused for a photograph in Rome's Piazza Navona between sessions of a world-wide management conference held in Italy in conjunction with the 1968 launch of the new line of MF construction machinery. From left to right are: M. I. Prichard, Group Vice President Engines; J. G. Staiger, Group Vice President Farm Machinery; Albert A. Thornbrough, MF President; J. E. Mitchell, Group Vice President Industrial and Construction Machinery; and K. C. Tiffany, Senior Vice President and Vice President Finance and Administration. With the commencement of MF's new fiscal year on November 1, 1968, Mr. Tiffany retired from the company, remaining however as a financial consultant. Mr. Staiger was appointed to the new position of General Vice President Administration.

consolidated financial highlights

	1968	1967
OPERATING SUMMARY *Millions of dollars*		
Net sales	**$916.8**	$913.3
Profit before taxes	**44.8**	40.3
Net income	**28.4**	26.6
FINANCIAL STATUS *Millions of dollars*		
Net current assets	**$358.4**	$353.7
Long-term debt	**164.7**	172.7
Capital and retained earnings	**447.4**	437.2
PER COMMON SHARE		
Net income — based on shares outstanding at year end	**$ 1.57**	$ 1.47
Dividends paid	**1.00**	1.00
Equity	**24.68**	24.11
STATISTICAL DATA		
Average number of employees	**45,043**	45,080
Number of shareholders	**43,527**	42,304
Common shares *(Thousands)* — outstanding at year end	**18,131**	18,131

report of the directors to the shareholders

FOR THE YEAR ENDED OCTOBER 31, 1968.

Your Directors are pleased to present this report on the consolidated operations, financial results and condition of Massey-Ferguson Limited for the year ended October 31, 1968. Preliminary results of consolidated sales and income for the year were announced December 19, 1968.

CONSOLIDATED RESULTS FOR 1968

Consolidated sales of all product groups for the 1968 period were $916.8 million, slightly increased over $913.3 million last year. It should be noted, however, that about 25 per cent of sales in both years were made in sterling currency; whereas in 1967 those sales were consolidated at $3.00 to the pound sterling, in 1968 they reflected the 14.3 per cent devaluation and were consolidated at the lower rate of about $2.58 to the pound. In 1967 sales in Mexico were included in consolidated sales, but the company carrying out these activities is now established as an associate company, and sales by this company in 1968 have therefore been excluded. Profit before taxes was $44.8 million compared with $40.3 million last year. The provision for income taxes was $16.4 million, an effective rate of 36.6 per cent, compared with $13.7 million, or a rate of 34.0 per cent in the 1967 fiscal period. The ratio of cost of goods sold to sales was 76.9 per cent compared with 78.3 last year.

Net income for 1968 was $28.4 million compared with $26.6 million last year. Net income per common share was $1.57 based on 18,131,000 shares outstanding at year end, compared with $1.47 based on 18,131,000 shares outstanding October 31, 1967. Depreciation and amortization charged against income was $34.0 million compared with $32.5 million. Engineering expense at $23.8 million decreased from $24.7 million.

For reasons noted later in this report operations in North America for the 1968 fiscal year showed a loss position. In Australia, where margins were under pressure from generally increased wage and material costs, profits were below last year. In other operations units — in Europe, South Africa and Brazil — profit levels were, on balance, satisfactory to favourable.

Dividends of $1.00 per share were paid during 1968. At year-end about 62 per cent of the shares were held by residents in Canada, 36 per cent by U.S. residents, and the balance held primarily in Europe. These percentage holdings have remained almost unchanged throughout the last six quarterly periods.

1968 market environment, on balance, as anticipated. When, in November, 1967, we entered the fiscal period now being reviewed it appeared in terms of markets to be an average year with the normal mix of favourable and not so favourable environmental factors that one expects in an international business. There were obvious uncertainties in the monetary situation and trading and financial restrictions affecting export territories, but there were a number of positive factors in our own situation. On balance, we expected and planned for increased sales and earnings in 1968. In most markets the environment has, in fact, been much as we anticipated.

Strikes seriously disrupt second and third quarter production in North American. One extremely negative development, however, decisively prevented the attainment of planned levels of sales and earnings in 1968 and disturbed the normal pattern of quarterly results. This was the continuous interruption of production in the first nine months because of strikes in the United States and Canada. These events had a most serious impact on Farm Machinery operations and to a lesser, but nevertheless significant extent, on results of Engines Group. The net effect of these strikes was: loss of production in the United States from our own plants and those of suppliers in the second quarter; total closure of all MF Canadian plants by strikes over wage parity in Canada, which began in the second quarter and continued through more than two months of the third quarter; and shut down of plants in the United States for more than one month of the third quarter because of inter-dependency with Canadian plants.

The impact of these events affecting Farm Machinery operations in North America was reflected in our consolidated results in successive quarters. The 1968 first quarter began satisfactorily with sales and earnings ahead of 1967; the second and third quarter results were both very substantially below those of the previous year. By the end of the nine-month period consolidated sales were some $35 million behind 1967 and consolidated net income was more than $8 million below that of the previous year. On September 13, 1968, we noted in our statement to shareholders that results for the full year would be highly dependent on the fourth quarter, and that to reach sales and earnings levels of last year would require a favourable climate and strong performance by all operations units.

Strong performance by all operations units sets sales record in fourth quarter. We are pleased to record that a strong performance was achieved. Consolidated sales for the fourth quarter were a record $284.3 million, some $38 million more than the comparable 1967 quarter, and $16 million greater than for any previous

quarterly period. Reflecting this large sales volume, net income for the final quarter at $14.7 million was more than three times that of $4.6 million in the 1967 last quarter. This substantial increase more than offset the cumulative decline in net income at the end of the 1968 nine-month period.

All operations units world-wide, without exception, increased their sales for the fourth quarter over the previous year. All product groups contributed to this increase; Farm Machinery made a strong recovery in North America; Engines moved ahead, and Industrial and Construction Machinery achieved demanding targets, which called for substantial sales of new construction machinery equipment in the latter months of the fiscal year.

For the year—Farm Machinery sales lower; ICM Engines and parts sales higher. Farm Machinery sales of $608.4 million declined 4.7 per cent; Engine sales of $111.1 million rose 9.5 per cent; and sales of Industrial and Construction Machinery of $95.8 million increased 20.9 per cent. Parts sales of all product groups (not included in the above figures) were $101.5 million, an increase of 7.7 per cent. The relative contributions of the three product groups to consolidated sales were: Farm Machinery 66.4 per cent; Engines 12.1 per cent; and ICM 10.4 per cent. Parts sales contributed 11.1 per cent.

FARM MACHINERY GROUP

About 80 per cent of total farm machinery sales were made in North America and Europe, with sales in the former being somewhat larger than those in the latter. As noted previously, overall Group sales declined 4.7 per cent from last year, the result almost entirely of a decrease of $32 million in North American sales, spread about equally between Canada and the United States.

North America—industry market down, wage-parity strikes halt MF production. Industry volume in North America for 1968 appears to have been well below that of the previous year. A combination of poor weather, falling crop prices for corn, wheat and soybeans, rising interest rates and slow movement of international grain sales restrained many farmers in both United States and Canada from making planned equipment purchases. In Canada the wheat crop was well above average and larger than expected, thus increasing the carry-over; moreover, the crop was of poorer quality. Industry retail sales of tractors, combines, corn heads and balers were significantly reduced in both countries. It is satisfactory to report that North American Operations in the face of this trend improved its position in all these categories. This was particularly true in the corn-belt area of the United States.

The fundamental issue which brought about the prolonged strike in Canada and subsequently stopped production in the United States was 'wage parity' between employees in Canada and United States. Your Board and management took a fully documented, firm and unequivocal position that the company had clear-cut responsibilities toward the public interest, shareholders and employees which made impossible the acceptance of any settlement that imposed a competitive wage penalty (an inevitable consequence of wage parity) and would severely restrict Canadian manufacturing activities. The terms of the final settlement with the union met the company's requirements. Since the average hourly cost of settlement in Canada was not greater than the cost of settlements in the industry in the United States, the terms imposed no competitive penalty on our Canadian operations.

European operations units increase sales over previous year. Farm machinery markets of operations units in Europe (United Kingdom, France, Germany and Italy) were generally satisfactory. Despite climatic conditions in the United Kingdom which, almost throughout the year, were the worst in a century, demand was maintained and MF sales, measured in pounds sterling, were up about 18 per cent. The company maintained its substantial lead in tractor penetration and significantly improved its penetration for combines and balers. In France, sales after a slow start showed a major recovery with increased farmer spending following the national strikes of May and June, and finished the year strongly. The general economic boom which developed during the year in Germany did not extend significantly to the agricultural market but there was some improvement from the depressed market of the past two years. Decline in tractor sales was offset by good demand for combine harvesters. Sales in Germany gained in the fourth quarter and were slightly ahead for the year. There was weakness in some sections of the Italian agricultural economy, and sales were slightly below 1967.

Market strong in Brazil; satisfactory in Australia and South Africa. In markets of other operations units—Brazil, Australia and South Africa — economic conditions were satisfactory to good, although climatic conditions at certain periods of the year both in Australia and South Africa were extremely unfavourable. A general strength-

ening of the Brazilian economy began about March 1968, and this was reflected in the agricultural sector. Sales demand accelerated sharply and continued strong for the remainder of the year. Sales in Brazil for the twelve-month period set a record and increased 63 per cent. In Australia severe drought in the first quarter virtually brought farming operations to a standstill in Victoria, South Australia and New South Wales. The drought broke with good rains at the end of the second quarter making possible the sowing of a record national wheat acreage. Further recovery took place with buoyancy in the grain growing sector, tempered somewhat by yields being much lower than anticipated in many cereal areas which did not receive the essential finishing rains. This year's experience in Australia illustrates the unpredictable aspects of primary production which, despite modern techniques and machinery, are still an inevitable part of the farm machinery business and distort planned programs of manufacture and distribution. Australian sales for the year were slightly below the high volume achieved in 1967. South Africa also experienced early drought, high temperatures, and generally erratic climatic conditions with partial failure of the maize crop. Industry tractor sales in 1968 ran about 18 per cent below last year and MF tractor sales reflected this decline. Excellent performance of South Africa Operations' full line of wheat and maize harvesting machinery, however, helped compensate for the reduced tractor volume.

The MF 101 self-propelled sugar cane harvester, launched in Australia in time for the 1968 harvest, employs a reverse-mounted MF 135 tractor as a power unit. The development and manufacture of MF cane harvesters is concentrated at the Crichton Industries Pty. Ltd., plant in Bundaberg, Queensland, near the heart of Australia's sugar cane belt. Crichton Industries Pty. Ltd., which is named after one of the pioneers of sugar cane mechanization, was established as a subsidiary of Massey-Ferguson in 1966. MF now makes available a complete range of cane harvesters in both short-billet and long-stick models, either self-propelled or tractor mounted.

Total sales in South Africa ended somewhat below the record set the previous year.

Satisfactory progress by Export, and Special Operations and associate companies. Sales in 1968 of Export Operations (primarily in Northern Europe, Africa, Latin America, Middle-East and Asia) increased about 16 per cent on a sterling currency basis and were slightly ahead of last year on a dollar comparison basis. Through early 1968 Northern European markets showed some contraction but latterly have shown a much more stable market level and a firmer trend. Southern Hemisphere markets were slow to start but gained strength in the latter half of the year.

In addition to farm machinery activities already noted and carried out through operations units and Export in the geographic areas assigned to them, your company also participates actively in assembly and manufacturing operations in a number of other areas, primarily in those countries where agricultural mechanization is at an early stage. We do this through associated companies or through what we refer to as Special Operations.

Mexico, Spain, India and Turkey. Massey-Ferguson de Mexico S.A., shown on last year's report as a subsidiary, is now an associate company as noted earlier. An excellent new 145,000 square-foot tractor plant at Queretaro was officially opened in February, 1968. The added impetus from this new operation, together with an established and strong distribution organization in Mexico, have resulted in sales more than doubling in 1968.

Motor Iberica S.A. in Spain, with whom we became associated in December 1966, has enjoyed a most satisfactory year, and profits after taxes will significantly exceed the $4.3 million of 1967. (These results are not consolidated.) This company produces a wide range of products, including trucks, agricultural and industrial tractors, combines, other agricultural and industrial equipment and diesel engines. It is the largest tractor manufacturer in Spain. In keeping with the modernization and expansion program agreed upon in 1967, a central parts operation, a transit warehouse, and an engineering and training facility have been completed and work on a new assembly facility will start soon on a site in Barcelona.

The plant expansion program of Tractors and Farm Equipment Limited, Madras, our associate in India, is now underway with facilities planned for an annual capacity of 7,500 tractor units by mid-1969 — a major increase over the current rate of about 4,000 units. It seems possible that the recent dramatic upsurge in grain production in India brought about by the newly discovered high yielding varieties of wheat and rice, together with increased use of fertilizer, may significantly accelerate the rate of agricultural development and mechanization in that country, and indeed throughout Asia. In Lahore, Pakistan, in association with our local MF distributor, a tractor assembly facility was opened in March, 1968, and in Morocco a small tractor assembly operation has been developed.

Toward the end of the fiscal year the Turkish Government gave approval for projects whereby Massey-Ferguson will build two factories in Turkey, one for tractors and the other for engines, with annual capacities respectively of 20,000 and 50,000 units. Production is expected within two years. Our company has enjoyed good markets for many years in Turkey and since 1961 has participated in local assembly of tractors near Istanbul which, from an initial rate of 1500 units, has risen to a current rate of about 7,000 units annually. The proposed extension of these activities is a reflection of Turkey's agricultural and industrial potential (it is now the world's sixth largest grain producer) and of its strong annual growth rate of about seven per cent.

While the foregoing types of activity are not consolidated in our fiscal year's operations, total sales of these associate companies for 1968 were about $110 million. Moreover, they are indicative of steadily increasing concern with mechanization and development of agricultural economies by government in these and other countries, and of the nature and extent of your company's participation in these longer-term growth markets.

New products and features. During the year a number of new products and features were introduced, some of which are illustrated in this report. The MF 1080 tractor of 90-plus engine horsepower strengthens our position in the power category just below 100 horsepower. In the fast-growing, big tractor area we are well represented with the MF 1100 and 1130 models. *Pressure Control*, an extension of the original *Ferguson System*, continues to be a highly competitive feature in our tractor line.

For grain-harvesting machinery a new *Quick-Attach* feature enables a farmer to remove the grain table from his combine and replace it with a corn head in a few minutes. A new MF 187 combine was developed in Germany, designed to meet European harvesting conditions. With bagger grain handling arrangements this machine is particularly suitable for export markets in the Middle East, Africa and South America.

During the year we secured additional strength in our

general implement product line. In January, 1968 the company purchased the operating assets of Langeskov Plovfabrik A/S, a Danish business established 75 years ago, long respected as a manufacturer of plows and cultivators in its home market and which, in recent years, has exported to markets in Germany, United Kingdom, France and North America. Toward the end of the year MF entered an agreement with Huard-U.C.F. of Chateaubriant, France, to market a range of this company's plows in Europe and other markets.

INDUSTRIAL AND CONSTRUCTION MACHINERY GROUP

In our annual report last year we made special and extensive comment on the launch by Industrial and Construction Machinery Group of a major new product line which would come into production during 1968 in factories in United States, Italy and England and be distributed through the company's operations units world-wide. This program has been successfully carried out during 1968.

Construction machinery line introduced into world-wide markets. Expanding the ICM line from what was generally referred to as 'light industrial line' (small crawlers, 2-wheel-drive loaders, tractor-backhoe-loaders) larger, more powerful models of medium-size construction machines were put into production and introduced into the market. Referred to as the 'construction machinery line', these models included new, larger crawler tractors, 2- and 4-wheel-drive loaders and hydraulic excavators. The addition of these products substantially broadened the market potential for the ICM Group. The new construction machinery line should enable MF to be in competition with over 85 per cent of the units sold within these product groups on a world-wide basis. Specifically, MF will compete in all the industrial wheel tractor market, in 79 per cent of the crawler tractor market, in 85 per cent of the wheel loader market, and in 75 per cent of the hydraulic excavator market.

Production was expanded during 1968 in a 359,000 square-foot factory near Akron, Ohio, which was acquired in 1967. The newly completed 500,000 square-foot factory for industrial and construction machinery in Aprilia, Italy, was officially inaugurated in March. Marketing presentations for overseas distributors were made at this time in Aprilia. North American distributors viewed the new line in Akron. These launches were subsequently complemented by local product introductions by all operations units world-wide. The launch of the construction machinery line, both into production and into world-wide markets, set demanding objectives. The entire program was most successfully accomplished and customer acceptance of the new product line has been highly gratifying.

ICM sales set new record with 21.0 per cent increase. Industrial and Construction Machinery sales for 1968 were $95.8 million, exclusive of parts and service. This represents a 21.0 per cent increase over last year and a 64 per cent increase over the level of three years ago. The two major ICM markets, North America and Europe, and all other operations units and Export Operations, made gains in their areas.

Major expenditures in the United States for housing, construction and road building on programs extending through 1974 have been identified in governmental legislation. Much of this work favours the use of the medium-size type of MF-ICM machinery. In Europe recent studies of a commission of the European Economic Community indicate the beginning of a more vigorous expansion in gross and fixed asset formation, especially in investment in plant and machinery, which should encourage an increase in industrial and construction machinery demand. A forestry mechanization team has been established to expand our line of forestry machines as a result of the comprehensive study noted in last year's report. This team will not only adapt the present line of MF products for specialized forestry applications but also design special forestry mechanization units to be sold through our distributors. The mechanization of lumber and pulp production, as well as greater use of wood in expanding markets for housing and paper products, offers increasing opportunities for this new direction of the company.

Expansion of ICM manufacturing facilities and distribution organization. During 1968 the ICM Group significantly strengthened its base of operations. It now has two new, modern manufacturing facilities, one in the United States and one in Italy. In a third factory in Manchester, England, tractor-loaders and tractor-backhoe-loaders are produced. Separate ICM operations units are responsible for activities in North America and in Italy, and the distribution organization in all areas is progressively being enlarged and strengthened. Toward the close of the year a separate ICM division of United Kingdom Operations was established with its own executive staff in Manchester, England. A new factory for ICM products will be built near Liverpool, England, with production planned for the 1970 fiscal year.

ENGINES GROUP

Engines Group, which supplies the power base of both Farm Machinery and Industrial and Construction Machinery Groups, is also in its own right (as the Perkins group of companies) a major enterprise to world-wide customers. The figures shown annually for Engines Group under Net Sales by Products on page 31 represent Perkins sales to these customers, and exclude engines sales to MF. Perkins is the world's largest manufacturer of diesel engine units. It occupies a unique and important position within our company's overall operations. In order to give shareholders fuller information on the scope and spread of its activities than is appropriate in this particular review, a special section on Perkins has been included on pages 12 to 15. The Perkins companies are also identified in the chart starting on page 36.

Engines sales set new record with 9.5 per cent increase. For the ninth successive year engines sales for automotive, industrial and agricultural equipment set a new record at $111.1 million, an increase of 9.5 per cent from $101.5 million last year — a performance which, inasmuch as the figure reflects the effects of sterling devaluation, was particularly satisfactory.

In Europe recovery of industrial and farm machinery markets brought higher sales, and further penetration of the vehicle engine sector was achieved with the V8.510, 185 horsepower engine. In the United States increased sales to industrial equipment manufacturers and the continued success of Perkins marine engines were associated with growing strength of the distributor network. Growth in Canada included an increasing share of the expanding forestry mechanization market. Stabilization and growth of the Brazilian economy, coupled with an increased preference for diesel engines in trucks, resulted in substantially increased sales and production from the factory in Sao Paulo.

During the year significant extensions of facilities at Peterborough were completed and formally opened. These included a new 130,000 square-foot plant, a new engineering centre and an office block. One section of the production line at the Fletton plant, the most highly automated diesel factory in the world, is shown on the front cover of this report. It was designed to manufacture the recently introduced V8.510 engine which, at 185 horsepower, is the largest unit in the Perkins line and has been widely accepted by leading truck manufacturers and makers of farm and industrial equipment. The factory has a capacity of 30,000 engines annually, bringing Perkins total capacity to 1,500 engines daily. During 1968 three- and four-cylinder gasoline and liquefied petroleum gasoline models were introduced for special applications.

Currently Engines Group has manufacturing plants in England, France, Australia, Italy and Brazil, and facilities with associated companies in India, Argentina, Spain and Mexico. Under proposals made by the Turkish Government, to which reference has aready been made, a major new engine facility for 50,000 units annually will be established within two years in that country.

INDUSTRIAL RELATIONS

Apart from the strikes in Canada and United States on which we have commented earlier, labour relations problems elsewhere had relatively minimal effect on the company's operations. The collective agreement negotiated in Massey-Ferguson, United Kingdom, in 1967 ran its term throughout the year; and in Perkins, United Kingdom, manual workers were covered by the final year of a three-year agreement. The introduction of term agreements in our United Kingdom Operations several years ago had a significant stabilizing effect in the disturbed national labour relations environment in 1968. By November, agreement renewal negotiations were underway at Perkins, and national claims affecting all United Kingdom plants had been served.

In May and June both MF and Perkins operations in France suffered from the general strike which had revolutionary overtones. These disturbances were resolved in a national agreement to which the government was party, followed by employer/union bargaining at the company level. In our company, local negotiations were satisfactorily concluded, and the efficiency of plant operations has since been maintained. The two-year agreement negotiated at Beauvais in 1967 materially assisted the achievement of a good settlement. Under the industry-wide agreement in Germany, new provisions for the protection of technologically displaced employees became effective in May and a basic wage increase was negotiated effective in June. The prolonged and difficult industry-wide negotiations underway in South Africa at the end of 1967 concluded in an agreement in February, 1968 without strike. In Australia the Conciliation and Arbitration Commission brought down an award in 1968 covering engineering and metal manufacturing industries. In spite of its inflationary magnitude, it was followed by the worst outbreak of strikes that Australia has suffered in 10 years. We believe that our unique term agreement in the Australian company is mainly

responsible for our uninterrupted production in the face of unsettled national conditions.

Last September massive province-wide strike action occurred in Latina, Italy, where our new Aprilia facility is located. Our settlement which followed should, by its no-strike provision, assure freedom from work stoppages on local issues in 1969. Wage increases awarded by the labour court in Brazil during the year unfortunately exceeded the Government's previous norms and, if allowed to stand, could prejudice the administration's recent success in decelerating inflation. There were no significant labour relations problems with unions in other areas.

Improvement in organization during the year and plans for future organizational evolution placed heavy demands on management development, succession planning and recruitment. Programs directed to these activities were intensified.

MANAGEMENT APPOINTMENTS

Toward the close of the 1968 fiscal year K. C. Tiffany, Director, Senior Vice President and Vice President Finance and Administration, expressed his wish to exercise his right under company retirement practices to take early retirement and relinquish his responsibilities by December 31, 1968. The Board records its great appreciation for the highly effective manner in which he has guided the company's international financial affairs over the past eight years. On January 8, 1969, J. G. Staiger, General Vice President Administration, and M. I. Prichard, Group Vice President Engines, were appointed Directors of Massey-Ferguson Limited. During the year a number of appointments were made to operations management positions, and some rearrangement of functional responsibilities within corporate management was effective November 1, 1968 resulting in new appointments. Progressive development of the organizational concept of three product groups and of related corporate staff responsibilities will require additional appointments in due course.

Effective November 1, 1968 J. G. Staiger, formerly Group Vice President Farm Machinery, was appointed General Vice President Administration, responsible for world-wide common services, legal and patent services and project management. Direction of Farm Machinery Group will, for the time being, be undertaken by Mr. Thornbrough, President and Chief Executive Officer. Other appointments to corporate management during the year were: J. P. Wleugel, General Manager North American Finance Operations to Treasurer, and P. J. Dixon to a new corporate management position, Director Management Information Systems. During November 1968 D. Barker was appointed Assistant Treasurer and C. D. Abarr was appointed General Manager North American Finance Operations.

In operations management W. G. Slife, formerly Vice President and General Manager (designate) Farm Machinery-North America became General Manager of this activity effective November 1, 1968 and President of Massey-Ferguson Industries Limited and of Massey-Ferguson Inc., the operating subsidiaries in Canada and the United States respectively of Massey-Ferguson Limited. Dr. R. Durrer, Assistant General Manager, German Operations, was appointed General Manager, succeeding R. A. Diez who retired after thirty years service with the company, and who as General Manager for the past fifteen years was in large measure responsible for the impressive growth of our operations in Germany. G. E. Smith, formerly Director Engineering Engines Group, has been appointed General Manager Engines-North America.

OUTLOOK FOR THE 1969 FISCAL YEAR

In recent years the demand for farm machinery has been undergoing some fundamental changes and it is in this context that prospects for 1969 and beyond must be assessed. From 1960 to 1966 there was a marked growth period in the developed agricultural areas of Western Europe and in North America. In Europe a growing sector of new users stimulated sales, and in North America the swing to larger tractors and combines had a similar effect. It is now evident that there was a levelling out by early 1967 from this period of rapid build-up of tractor and combine populations. There has been a levelling out also of farm income, and world-wide grain supply is somewhat larger than it has been for the past few years. At this time it would appear that markets for farm machinery during 1969 will be less than buoyant in North America; for operations units in Europe, Australia, South Africa and Brazil they should be satisfactory and in some of these countries perhaps favourable. In export markets there are bound to be the customary uncertainties in trading and financial restrictions. Nevertheless we would expect the overall long-term growth trends in export markets to continue, particularly in developing countries now stressing agricultural production. In these countries Massey-Ferguson is particularly well situated as has already been noted. MF inventories of tractors and combines at the beginning of the new fiscal year are at satisfactory levels in North America and elsewhere. Although the total market world-wide in 1969 is unlikely to prove buoyant, we believe there are opportunities for

improvement of sales of Farm Machinery Group.

Through its own operations units in North America and Italy, and through the Massey-Ferguson group of companies (as indicated on the chart starting on page 36), the ICM Group is able to market its products through distributors in all parts of the world and expand its penetration in an overall market which should exceed $6 billion. With a product base now firmly established, excellent and well-positioned manufacturing facilities, and access to international markets, the prospects for expanding volume and profit of Industrial and Construction Machinery Group in 1969 and beyond are most promising.

Over the past several years Engines Group has achieved steady annual sales increases in markets where the industrial climate influencing demand for its products has not been especially favourable. Any environmental change during 1969 would appear to be positive rather than negative. We therefore look for further sales growth for Engines Group for 1969.

At this time last year sterling devaluation had just taken place. At the date of this report the British pound is not yet free from pressure, the French franc is requiring support, and problems are arising from upward pressures on the German mark. This instability in the international monetary situation again makes forward estimating hazardous. In the absence, however, of major deterioration in the economic or political environment, the prospects in 1969, on balance, appear favourable for increased consolidated sales and earnings from the combined activities of our three product groups.

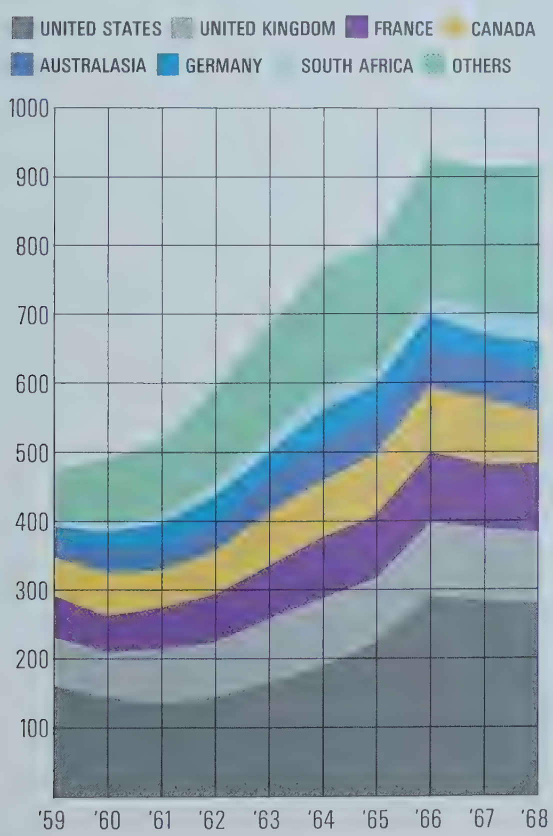
The 1968 fiscal year was a difficult one for North American staff, and for all other operations units and all product groups the programs established were challenging. We express our appreciation to corporate and operations staff and employees for their most constructive efforts throughout the year. We also extend appreciation to our distributors and dealers throughout the world, and to our business associates in India, South Africa, Spain, and Mexico.

Albert A. Thornbrough

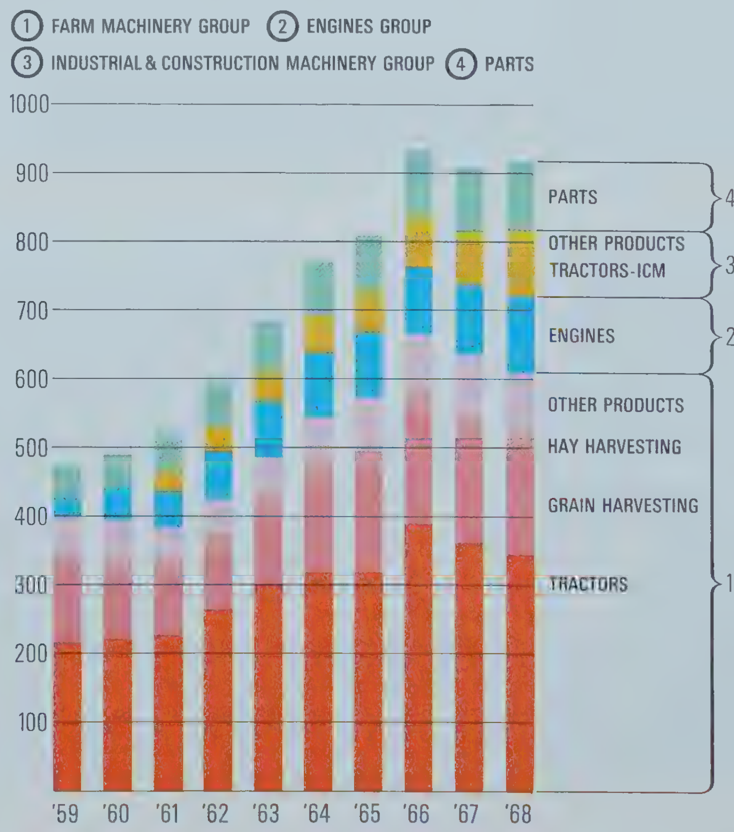
President and
Chief Executive Officer

Toronto, January 30, 1969

NET SALES BY MARKETS
(MILLIONS OF DOLLARS)



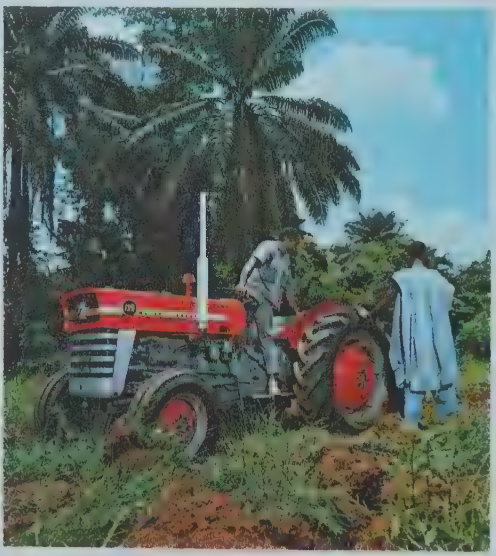
NET SALES BY PRODUCTS
(MILLIONS OF DOLLARS)



PERKINS ENGINES GROUP ...diesel power everywhere

Forklift and dump truck in Florida

Excavator in Brazil



Farm tractor in Nigeria

When Massey-Ferguson decided to acquire the Perkins organization in 1958, both companies agreed without reservation that a major manufacturer of engines could participate within a parent organization of engine users and yet serve other customers with uncompromising integrity, regardless of the nature, location or volume of their equipment requirements.

The Canadian-based parent company and the Perkins Engines Group, now one of MF's three basic product groups, have pursued these principles since Perkins joined the MF family early in 1959. The Engines Group has achieved steady progress in meeting the demands of engine users in the farm machinery, automotive, industrial equipment, and marine fields throughout the world.

A critical test of this customer-service philosophy has been the Group's capacity to increase sales year by year since the acquisition; of particular significance is the fact that world-wide sales of Perkins engines to farm machinery manufacturers, exclusive of MF, have risen through the period 1959-68 by 36 per cent.

Thus, MF products, although visible wherever fields are plowed and buildings constructed, are also operating under cover in all parts of the world—under the hoods of trucks and tractors, below the decks of motor yachts and fishing boats, inside the contoured panels of forklift trucks, giant cranes, log skidders, generators.

The Perkins Group has now moved into its second decade as the world's largest manufacturer of high-speed diesel engines. In 1968, more than 300,000 Perkins engines rumbled into the mainstream of the world economy from Perkins and affiliated factories, providing 18 million working horsepower for customers whose machinery and equipment is operating in more than 180 countries and territories.

Perkins net sales, excluding shipments to Massey-Ferguson, were $111,100,000

in 1968, representing a gain of 9.5 per cent over 1967. This achievement reflects a fundamental belief that the Perkins Group's success in world markets depends in large measure on its ability to function as a highly efficient and productive engineering division for every customer it serves.

To a degree unparalleled by any other enterprise anywhere, Perkins has developed a capability to "make engines for engine makers," and in support of the global application of its products Perkins maintains distributors in 105 countries and nearly 1,400 local and regional service and spare-parts outlets. This international network is guided and coordinated from the Group's headquarters in Peterborough, England, where 7,500 are employed in two highly automated factories (occupying some 1,600,000 square feet) with a production capacity of 1,500 engines a day. The Peterborough plants accounted for 240,000 engines in 1968, of which more than 80 per cent was shipped to export customers.

Perkins remains in the forefront of the world diesel industry by concentrating on high-volume production of robust yet economic compression-ignition engines currently spanning the range of 20 to 185 horsepower. The Group's pioneer development of compact, high-speed units has triggered significant advances in the design and use of modern machinery—including the introduction of diesel power for local and short-haul truck delivery service in North America.

In constant search of new ways to apply diesel power, and new engines to meet continuing demands for more speed and working energy, Perkins devotes substantial effort to research and development. Its Peterborough-based staff of 500 engineers, augmented by the engineering departments of affiliates and subsidiaries in 14 other countries, has registered an impressive series of innovations in diesel tech-

Racing yacht on the high seas with Perkins auxiliary engine

Aircraft tow truck in Spain

nology. Among the recent results of these activities was the Group's first V-type engine for commercial application, the Perkins V8.510 (approximately 185 horsepower), perhaps the most thoroughly test-proven diesel currently offered in world markets.

With its acceptance by major manufacturers of highway, farm, and industrial equipment, the V8.510 takes its place in the Perkins family of engines alongside the widely used 6.354, a six-cylinder diesel introduced 10 years ago and now scheduled for production in upgraded form in 1969. One of the most popular engines ever developed by Perkins, the rugged 6.354 (approximately 120 horsepower) has accumulated millions of hours of reliable service in every major application—automotive, farm, industrial, and marine.

Perkins has also produced a series of highly successful three-cylinder diesel engines. A prime example is the Perkins 3.152 (approximately 40 horsepower), introduced in 1953 and, in significantly redesigned form, still in heavy demand for agricultural and industrial machinery.

Pressing its campaign to accelerate the adoption of diesel power for smaller commercial vehicles in North America, the Group has developed a four-cylinder version of the widely used 6.354—called the Perkins 4.236 (approximately 80 horsepower)—which is suitable for light delivery vans. The U.S. postal service is now field-testing 4.236-powered vans in two major cities.

Newcomers to the steadily growing range of Perkins engines are three- and four-cylinder gasoline and liquefied petroleum gas (LPG) models adapted from existing diesel engines. They were designed for special applications to satisfy local fuel conditions. Emphasis is placed on their basic components being identical with their diesel counterparts, giving manufacturers a range of engine types for the same chassis and standardized parts requirements.

This carefully planned policy of standardization is expressed in still other Perkins marketing programs. Many customers, for example, obtain base engines for which they can specify a wide variety of optional components. Perkins also maintains rigid engineering and quality control of engines produced by affiliate companies and licensees so as to safeguard the Group's global reputation as a manufacturer of superior products.

Like its parent enterprise, Perkins is truly multi-national. The ubiquitous Perkins label is found on manufacturing plants in Argentina, Australia, Brazil, France, Italy, Spain, India, Japan, and Mexico, while major marketing and customer-service facilities are located in Canada, Germany, South Africa and the United States.

Very recently, the Government of Turkey approved construction of a $36 million enterprise near Istanbul. Perkins will hold a 51 per cent equity position in this new facility. Initial production capacity will be 50,000 engines a year, thereby raising Perkins world-wide capacity by more than 10 per cent.

In another major expansion project, a $5 million combined administration headquarters and engineering research center was completed in 1968 at Peterborough. The new complex houses some of the most modern engine testing facilities and experimental workshops in the world.

Tractor-trailer in California

Medium-duty trucks in Canada

Elsewhere in 1968, the Group's Canadian subsidiary, Perkins Engines Canada Limited, completed a substantial expansion of its facility at Rexdale, near Toronto, and the U.S. subsidiary, Perkins Engines Inc., moved forward with preparations to occupy new and larger quarters in Greater Detroit.

This farflung organization serving customers throughout the world bears scant resemblance to the tiny engine shop established by the late Frank Perkins in a back street in Peterborough 36 years ago. Progress was slow in the early years, but quickened under the urgent demands of wartime. Then the requirements of economies desperate for revitalization provided fresh momentum in the late 1940's for the aggressive product development activities that are now recognized everywhere as a Perkins benchmark.

In the 1950's the Perkins marketing campaign spread to new customers in new lands, propelling the enterprise to its present position of leadership and into the Massey-Ferguson orbit.

Success, however, has not created complacency. As a proprietary engine maker selling its wares to customers often capable of making engines for themselves, the Perkins Group continually resets its sights on higher goals of product development and customer service. In recent years, competition has sharply intensified in major markets, notably North America and Western Europe, and as a pacesetter Perkins confronts the unrelenting pressures of those battling to catch up. Thus, the Group places a high value on the caliber both of its senior headquarters managers and those professional engineers and marketers manning frontline positions in the field. Together, they constitute a team that has scored consistent sales advances ($24.6 million in 1959, $70.8 million in 1962, $94.9 million in 1965, and $111.1 million in 1968), and the outlook for continued gains is encouraging.


Road compacters in France


Snow plow in Japan


Main Perkins factory in Peterborough, England

MF INDUSTRIAL & CONSTRUCTION MACHINERY

Two examples of MF's new construction machinery line launched world-wide during 1968 are the MF 450 hydraulic excavator (top photo) and the MF 500 crawler loader. The new line also includes a range of wheel loaders and, to be introduced starting in 1969, a series of integrated backhoe-loaders. MF industrial and construction machinery products are manufactured at plants in Akron, Ohio, Aprilia, Italy and Manchester, England. Another ICM factory, to be built near Liverpool, England, will begin production in 1970.

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF INCOME

Year ended October 31, 1968 (with comparative figures for 1967)

	1968	1967
SALES AND OTHER INCOME:		
Net sales	**$916,770,599**	$913,258,046
Interest, finance charges and miscellaneous income	**24,331,724**	23,102,813
Profit on disposal of capital assets	**894,640**	1,496,209
TOTAL SALES AND OTHER INCOME	**941,996,963**	937,857,068
Deduct:		
Cost of goods sold	**705,123,827**	715,400,400
Marketing, general and administrative expenses	**127,997,690**	122,733,216
Engineering expenses	**23,826,453**	24,739,623
Interest on long-term debt	**12,865,428**	11,231,926
Interest on bank and other short-term debt	**24,709,561**	21,913,858
Exchange adjustments	**1,336,057**	880,244
Minority interest	**1,291,800**	635,822
	897,150,816	897,535,089
PROFIT BEFORE INCOME TAXES	**44,846,147**	40,321,979
Income Taxes:		
Before reduction due to tax credits	**19,424,475**	16,799,348
Tax credits (Note 4)	**(3,000,000)**	(3,100,000)
	16,424,475	13,699,348
NET INCOME FOR THE YEAR	**$ 28,421,672**	$ 26,622,631
Earnings per share (based on shares outstanding at year end)	**$ 1.57**	$ 1.47
Depreciation, and amortization of production tooling included above	**$ 33,976,334**	$ 32,529,560
Net income of North American finance subsidiaries consolidated above	**$ 2,853,717**	$ 2,885,177
Remuneration paid to the company's directors, including directors holding salaried employment	**$ 528,438**	$ 611,267

(See accompanying notes to consolidated financial statements)

Massey-Fer

(INCORPORATED U

CONSOLIDATE

October 31, 1968 (with com

ASSETS

CURRENT ASSETS:	1968	1967
Cash	$ 34,996,852	$ 35,383,132
Receivables — Trade and sundry (Note 2)	329,759,520	294,452,828
— Due from finance subsidiaries	6,209,565	18,108,120
Balance of proceeds from United Kingdom loan stock issue		16,112,500
Inventories, valued at the lower of cost or net realizable value —		
Raw materials and work in process	123,531,207	122,114,949
Finished goods	160,364,667	159,945,126
Total inventories	283,895,874	282,060,075
Prepaid expenses and other current assets (Note 4)	28,356,066	22,518,167
TOTAL CURRENT ASSETS	683,217,877	668,634,822
INVESTMENTS:		
Wholly owned finance companies, at equity in net assets (Note 1)	29,871,767	27,048,050
Associated companies, at cost	22,242,881	18,295,129
	52,114,648	45,343,179
FIXED ASSETS:		
Land	8,052,089	7,890,798
Buildings	119,174,172	115,294,789
Machinery and equipment	246,018,873	238,831,180
Production tooling	22,695,279	25,924,600
Total fixed assets, at cost	395,940,413	387,941,367
Less accumulated depreciation and amortization (Note 3)	206,160,189	190,320,166
	189,780,224	197,621,201
OTHER ASSETS AND DEFERRED CHARGES	14,790,436	14,229,158
	$939,903,185	$925,828,360

ON BEHALF OF THE BOARD:

E. P. Taylor, Director

Albert A. Thornbrough, Director

uson Limited

THE LAWS OF CANADA)

BALANCE SHEET

tive figures at October 31, 1967)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
CURRENT LIABILITIES:		
Bank indebtedness	**$ 94,769,994**	$115,877,370
Short-term notes payable	**4,793,675**	1,493,678
Accounts payable and accrued charges	**180,910,316**	159,146,366
Income, sales and other taxes payable (Note 4)	**33,947,068**	27,867,605
Dividends payable	**4,532,668**	4,532,668
Advance payments from customers	**5,859,173**	5,970,824
TOTAL CURRENT LIABILITIES	**324,812,894**	314,888,511
DEFERRED INCOME TAXES (Note 4)	**4,047,846**	1,469,652
LONG-TERM DEBT:		
Bonds, debentures, notes and loans (Note 6)	**164,749,091**	172,653,556
Less instalments maturing within one year, included with accounts payable and accrued charges	**12,917,072**	11,431,596
	151,832,019	161,221,960
MINORITY INTEREST IN SUBSIDIARIES	**11,770,746**	11,090,062
SHAREHOLDERS' EQUITY:		
Share capital (Note 7)	**183,341,817**	183,351,529
Retained earnings (including retained earnings of unconsolidated finance companies: October 31, 1968—$13,978,667; October 31, 1967—$11,154,950) (Note 5)	**264,097,863**	253,806,646
	447,439,680	437,158,175
	$939,903,185	$925,828,360

(See accompanying notes to consolidated financial statements)

Massey-Ferguson Limited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended October 31, 1968 (with comparative figures for 1967)

	1968	1967
BALANCE AT BEGINNING OF YEAR	**$253,806,646**	$245,313,810
Add net income for the year	**28,421,672**	26,622,631
	282,228,318	271,936,441
Deduct cash dividends on common shares — $1 per share	**18,130,455**	18,129,795
BALANCE AT END OF YEAR	**$264,097,863**	$253,806,646

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Year ended October 31, 1968 (with comparative figures for 1967)

	1968	1967
WORKING CAPITAL AT BEGINNING OF YEAR	**$353,746,311**	$364,952,462
SOURCE OF FUNDS:		
Net Income for the year	**28,421,672**	26,622,631
Add (deduct):		
Depreciation, and amortization of production tooling	**33,976,334**	32,529,560
Equity in earnings of finance companies in excess of dividends received	**(2,823,717)**	(2,855,177)
Increase in deferred income taxes	**2,578,194**	135,728
FUNDS FROM OPERATIONS	**62,152,483**	56,432,742
Increase (decrease) in share capital	**(9,712)**	25,086
Issues of long-term debt	**3,885,750**	33,991,664
Net book value of fixed asset disposals	**6,914,896**	2,501,125
Increase (decrease) in minority interest in subsidiaries	**680,684**	(80,303)
TOTAL	**73,624,101**	92,870,314
USE OF FUNDS:		
Additions to fixed assets, including fixed assets of acquired companies	**33,050,253**	53,225,605
Reduction in long-term debt	**13,275,691**	16,499,164
Payment of common share dividends	**18,130,455**	18,129,795
Increase in investment in associated companies	**3,947,752**	13,019,200
Increase in other assets and deferred charges	**561,278**	3,202,701
TOTAL	**68,965,429**	104,076,465
Increase (decrease) in working capital	**4,658,672**	(11,206,151)
WORKING CAPITAL AT END OF YEAR	**$358,404,983**	$353,746,311

(See accompanying notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31, 1968

1. BASIS OF CONSOLIDATION AND EXCHANGE TRANSLATION

The accompanying financial statements consolidate the accounts of all subsidiary companies except for the assets and liabilities of the two wholly-owned finance companies in North America which are not consolidated because of the different nature of their business. A combined statement of the assets and liabilities of the two finance subsidiaries is set out separately on page 24. The investment in these companies is carried in the consolidated balance sheet at the equity in their net assets; their earnings have been taken up in the accompanying consolidated statement of income.

The statements of subsidiary companies outside Canada have been translated into Canadian dollars as follows: current assets, current liabilities and long-term debt at exchange rates prevailing at the end of the period; investments, fixed assets and depreciation provisions on the basis of rates prevailing at date of acquisition; income and expenses (other than depreciation provisions) at average exchange rates during the period. Exchange gains or losses from such translation practices are reflected in the consolidated income statement. The exchange adjustments resulting from the 14.3% devaluation of the pound sterling which took place on November 18, 1967 were reflected in the 1967 statements.

2. RECEIVABLES

A substantial portion of the receivables consists of non-interest bearing notes received from dealers. Approximately $67,000,000 or 20% of the 1968 notes and accounts receivable mature beyond one year, but are included in current assets in accordance with accounting practice in the industry.

Receivables are shown net of the following provisions:

	1968	1967
Allowance for doubtful notes and accounts..	**$ 5,666,944**	$ 5,494,285
Returns and other allowances...............	**12,606,500**	13,958,577
Unearned interest......	**1,467,204**	1,607,528
Total.............	**$19,740,648**	$21,060,390

3. DEPRECIATION AND AMORTIZATION

Depreciation of facilities is provided at rates which are designed to write-off the assets over their estimated useful lives as follows:

Buildings	5 to 50 years
Machinery and Equipment	3 to 10 years
Trucks and Automobiles	3 to 5 years
Office Furniture and Equipment	5 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and for minor product changes is charged against income at the time of purchase.

4. INCOME TAXES

The companies follow the tax allocation principle of providing for income taxes. Under this principle deferred income taxes are set up with respect to capital cost allowances claimed for tax purposes in excess of depreciation recorded in the accounts, and prepaid income taxes are set up with respect to various provisions made for accounting purposes which do not become deductible for tax purposes until the year of expenditure. In previous years prepaid income tax balances were deducted in arriving at the amount shown in the balance sheet for "Income, sales and other taxes payable". In 1968 the amount of such prepaid income taxes, $17,558,965, has been grouped instead with "Prepaid expenses and other current assets" and the corresponding amount for 1967, $13,994,973, has been similarly reclassified for comparative purposes.

The tax credits shown in the statement of income for 1968 and 1967 represent tax reductions arising from the carry-forward of prior years' losses in certain companies, other tax adjustments relating to prior years, and credits resulting from investment allowances. At October 31, 1968 certain subsidiary companies had losses remaining available to be carried forward; at current tax rates the tax credits which would result from the carry forward of these losses will, if realized, amount to approximately $2,100,000.

5. DIVIDEND RESTRICTIONS

The loan agreements of certain subsidiary companies contain restrictions on the payment of dividends. Under the most restrictive of these, approximately $106,000,000 of consolidated retained earnings is not available for the payment of dividends to shareholders of Massey-Ferguson Limited. Of the remaining $158,000,000, approximately $100,000,000 represents the unrestricted portion of profits of various subsidiaries outside North America which have not been remitted to Canada.

Transfers of earnings from companies outside North America are generally subject to the approval of exchange control authorities, but permission to pay dividends is normally obtainable. Dividend payments from subsidiaries in a number of countries are subject to withholding taxes. As substantially all the unremitted accumulated earnings of such subsidiaries have been re-invested in working capital and fixed assets, and as the amount of earnings which will be transferred in the future and the rates which will be applicable at that time are not known, such taxes are reflected in consolidated earnings only at the time of actual dividend remittance.

6. LONG-TERM DEBT

(Repayable in currency of country indicated; maturity dates shown are for fiscal years ending October 31)

	October 31, 1968	October 31, 1967
MASSEY-FERGUSON (AUSTRALIA) LIMITED:		
5¾% First Mortgage Debenture Stock maturing 1970	**$ 5,985,000**	$ 5,950,000
MASSEY-FERGUSON S.A. (FRANCE):		
6%-7% Mortgage Loans maturing 1969-75	**4,661,820**	6,644,460
MASSEY-FERGUSON G.m.b.H. (GERMANY):		
2½%-3½% Mortgage Loans maturing 1969-98	**3,095,766**	3,263,890
2½% Loan maturing 1969-74	**304,806**	354,849
MASSEY-FERGUSON ICM S.p.A. (ITALY):		
3% First Mortgage Loan maturing 1971-81	**1,727,000**	1,725,000
4% Second Mortgage Loan maturing 1972-82	**2,590,500**	
4% Third Mortgage Loan maturing 1972-83	**1,295,250**	
MASSEY-FERGUSON INDUSTRIES LIMITED (CANADA):		
5⅞% Secured Promissory Note maturing 1970-85	**22,000,000**	22,000,000
MASSEY-FERGUSON INC. (U.S.A.):		
5¼% Promissory Notes maturing 1969-83	**31,438,900**	33,508,800
5⅞% Subordinated Notes maturing 1971-84	**27,940,920**	27,966,960
MASSEY-FERGUSON (SOUTH AFRICA) LIMITED:		
7% First Mortgage Debenture Stock maturing 1969-82	**678,781**	744,000
7% Unsecured Loan to Agrimal (Malawi) Ltd. maturing 1970	**35,960**	41,664
MASSEY-FERGUSON HOLDINGS LIMITED (UNITED KINGDOM):		
8½% Bank Loans maturing 1969-71 (interest charged at 1½% above the Bank of England rediscount rate, which was 7% at October 31, 1968, with the provision that the minimum interest rate shall be not less than 5½%)	**26,163,000**	26,295,600
7½% Unsecured Loan Stock maturing 1987-92	**32,062,500**	32,225,000
MASSEY-FERGUSON SERVICES N.V.:		
6½% Bank Loan maturing 1969-70 (repayable in Netherland guilders to the extent of approximately $3,696,000 with the remainder payable in U.S. dollars)	**4,768,888**	11,933,333
	$164,749,091	$172,653,556

Sinking fund requirements and debenture and promissory note maturities during the next five years are as follows:

1969 — $12,917,072; 1970 — $20,146,000
1971 — $12,457,000; 1972 — $15,895,000
1973 — $ 9,382,000

7. SHARE CAPITAL, STOCK OPTIONS AND RESERVATION OF SHARES

(a) The authorized share capital at October 31, 1968 consisted of 20,000,000 common shares without nominal or par value.

(b) Changes in common share capital during the year:

	Number of Shares	Dollars
Outstanding October 31, 1967 and October 31, 1968	18,130,670	$182,998,369
Reservation of shares in connection with the 1965 purchase of assets of Badger Northland Inc. (subject to completion of certain warranties)	12,000	353,160
	18,142,670	183,351,529
Reduction of shares on the final settlement in November 1968 relating to the purchase of Badger Northland Inc.	330	9,712
	18,142,340	$183,341,817

(c) Employee stock options were outstanding at October 31, 1968 with respect to an additional 164,810 common shares exercisable by various dates up to 1974 as follows:

Year Granted	Option Price	Outstanding October 31, 1967	Granted During 1968	Outstanding October 31, 1968
1964	$18.50	82,060		82,060
1965	30.75	7,500		7,500
1966	32.25	2,200		2,200
1966	33.63	2,000		2,000
1966	35.94	3,000		3,000
1967	24.25	1,000		1,000
1968	16.00		2,000	2,000
1968	16.75		4,500	4,500
1968	17.31		3,000	3,000
1968	18.25		57,550	57,550
Total		97,760	67,050	164,810

Of the outstanding options 75,800 are for directors and officers. A further 158,550 unissued common shares are reserved for possible future employee options.

8. CONTINGENT LIABILITIES, COMMITMENTS, ETC.

(a) The totals of notes receivable discounted and bills guaranteed were as follows — October 31, 1968 — $45,500,000; October 31, 1967 — $53,500,000.

(b) Guarantees of short-term notes payable of the North American finance companies amounted to $38,462,800 at October 31, 1968 and to $20,312,374 at October 31, 1967.

Under the loan agreement relating to the subordinated notes of Massey-Ferguson Credit Corporation, Massey-Ferguson Limited has agreed that it will maintain assets in that company in certain specified relationships with that company's indebtedness.

(c) Approved capital expenditure programs outstanding totalled approximately $32,000,000 at October 31, 1968 (including commitments of approximately $17,000,000). These include the acquisition, subsequent to the year end, of a minority interest in a group of French companies manufacturing transmissions and axles.

(d) Pension costs (including payments to trustees on behalf of employees covered by trusteed pension plans) are charged against income in the year of payment. Past service costs in most trusteed plans are being funded over 25-40 years; the remaining unfunded past service cost for all trusteed plans in effect at October 31, 1968, is estimated at approximately $53,000,000, including an estimated $36,000,000 which has been actuarially computed to have vested (but for which the companies do not have a legal obligation) at December 31, 1967. Several of the more important plans were amended during the year primarily to provide for increased benefits.

Massey-Ferguson Finance Company of Canada Limited
Massey-Ferguson Credit Corporation and its subsidiaries

COMBINED STATEMENT OF ASSETS AND LIABILITIES

October 31, 1968 (with comparative figures at October 31, 1967)

	1968	1967
ASSETS		
Cash	**$ 3,038,079**	$ 532,266
Notes receivable (Note 2)	**220,420,212**	197,415,017
Prepaid expenses	**3,779,920**	3,594,464
Property leased to an affiliate (at cost less accumulated depreciation of $115,759)	**2,486,054**	2,670,398
	$229,724,265	$204,212,145
LIABILITIES		
Short-term notes payable — Banks	**$ 41,393,311**	$ 91,370,073
— Others	**80,257,223**	20,312,374
Current accounts payable to affiliates	**6,209,565**	18,108,120
Guarantee deposits from dealers	**4,498,670**	
Accrued charges	**1,665,427**	1,827,956
Income taxes payable	**1,417,403**	1,105,280
	135,441,599	132,723,803
Deferred income taxes	**4,430,199**	3,628,292
Long-term debt (Note 3)	**59,980,700**	40,812,000
	199,852,498	177,164,095
Equity of Massey-Ferguson Limited and its subsidiaries:		
Interest-bearing notes payable	**5,000,000**	5,000,000
Share capital	**10,893,100**	10,893,100
	15,893,100	15,893,100
Retained earnings (Note 3)	**13,978,667**	11,154,950
	29,871,767	27,048,050
	$229,724,265	$204,212,145

NOTES:

1. The above statement combines the accounts of Massey-Ferguson Finance Company of Canada Limited and of Massey-Ferguson Credit Corporation (U.S.A.) and its subsidiaries. The assets and liabilities of the United States companies are included on the basis of current exchange rates, and their share capital on the basis of rates prevailing at dates of issue. While the books of both companies are maintained and their tax returns are filed on a cash receipt and disbursement method, the above combined statement of assets and liabilities incorporates adjustments to reflect the financial position of the companies on an accrual basis of accounting.

2. Approximately $147,912,000 or 67% of the notes receivable mature beyond one year. Receivables are shown net of the following provisions: Unearned interest and discount 1968 – $35,014,000, 1967 – $31,380,121; Allowance for doubtful accounts 1968 – $1,806,907, 1967 – $1,894,558.

3. Long-Term Debt:
(Repayable in currency of country indicated; maturity dates shown are for fiscal years ending October 31)

Massey-Ferguson Credit Corporation (U.S.A.):	October 31, 1968	October 31, 1967
5% Senior Note maturing 1971	**$ 3,219,000**	$ 3,222,000
5½% Subordinated Notes maturing 1971-80	**10,730,000**	10,740,000
5¼% Senior Notes maturing 1977-86	**26,825,000**	26,850,000
7⅝% Senior Notes maturing 1988	**13,573,450**	
7⅞% Subordinated Notes maturing 1988	**5,633,250**	
	$59,980,700	$40,812,000

Instalments due and maturities during the next five years:
1969 and 1970 nil; 1971 – $4,292,000; 1972 – $1,073,000; 1973 – $2,225,000.

The 7⅝% Senior Notes were issued under an agreement which provides for the issuance of notes aggregating $22,533,000. Of the balance, $7,940,200 will be issued January 1969 and $1,019,350 in July 1969. On December 17, 1968 Massey-Ferguson Finance Company of Canada Limited issued $6,000,000 8½% Subordinated Notes maturing 1983.

In connection with the aforementioned debt, dividends may not be paid by Massey-Ferguson Credit Corporation out of retained earnings accumulated prior to October 31, 1967 ($8,759,228).

Clarkson, Gordon & Co.
Chartered Accountants

To the Shareholders of
Massey-Ferguson Limited:

We have examined the consolidated balance sheet of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1968, and the consolidated statements of income, retained earnings and source and use of funds for the year then ended. We have also examined the combined statement of assets and liabilities of Massey-Ferguson Finance Company of Canada Limited and Massey-Ferguson Credit Corporation and its subsidiaries as at October 31, 1968. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly (a) the financial position of Massey-Ferguson Limited and its consolidated subsidiaries as at October 31, 1968 and the results of their operations and the source and use of their funds for the year then ended and (b) the combined assets and liabilities of Massey-Ferguson Finance Company of Canada Limited and Massey-Ferguson Credit Corporation and its subsidiaries as at October 31, 1968, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co

Toronto, Canada,
December 16, 1968.

Chartered Accountants

financial review

BASIS OF CONSOLIDATION

The world-wide results of the operations of the company and all its subsidiaries are included in the 1968 Consolidated Statement of Income. The companies whose results are consolidated are the same as in 1967 except for the addition of a small company in Denmark and the deletion of MF de Mexico. As in prior years, subsidiary companies are those in which the company owns more than 50 per cent of the voting shares, but early in 1968 Massey-Ferguson ceased to control over 50 per cent of the shares of MF de Mexico.

Associated companies and the wholly owned North American finance companies and their subsidiaries have been shown as investments on the Consolidated Balance Sheet. The assets and liabilities of the finance companies have not been consolidated because of the significantly different nature of their operations. A combined statement of the assets and liabilities of the finance companies and subsidiaries is shown on page 24 of this report. The investment in associated companies is carried at cost, whereas the investment in the finance companies is carried at the equity in their net assets; earnings of the finance companies have been taken up in the Consolidated Statement of Income.

STATISTICAL SUMMARY *(All Dollars in Millions except Per Share Statistics)*

	BUSINESS ACTIVITY				OPERATING SUMMARY				
							Before Income Taxes and Exchange		
YEAR	Average Number of Employees	Total Assets	Net Sales	Asset Turnover	Gross Profit	Gross Margin	Profit	Margin	Income Taxes
1959	29,955	$465.3	$475.5	102.2%	$ 96.9	20.4%	$29.0	6.1%	$(6.1)
1960	35,376	458.0	490.4	107.1	99.9	20.4	16.8	3.4	(6.6)
1961	38,397	507.9	519.3	102.2	108.2	20.8	20.4	3.9	(10.0)
1962	39,806	533.5	596.1	111.7	127.8	21.4	30.0	5.0	(14.3)
1963	41,089	560.8	685.7	122.3	154.7	22.6	41.7	6.1	(17.7)
1964	42,927	621.4	772.0	124.2	182.0	23.6	62.8	8.1	(15.9)
1965	45,667	741.6	808.5	109.0	177.8	22.0	46.6	5.8	(7.5)
1966	46,242	845.8	932.1	110.2	209.9	22.5	62.6	6.7	(17.9)
1967	45,080	925.8	913.3	98.6	197.9	21.7	41.2	4.5	(13.7)
1968	**45,043**	**939.9**	**916.8**	**97.5**	**211.6**	**23.1**	**46.2**	**5.0**	**(16.4)**

	LIQUIDITY		CHANGES IN FIXED ASSETS				SOURCE OF ASSETS		
							Liabilities		
YEAR	Net Current Assets	Current Ratio	Depreciation of Buildings and Equipment	Amortization of Tooling	Total Depreciation and Amortization	Additions	Current	Other	Shareholder Equity
1959	$174.8	2.0	$ 8.3	$3.8	$12.1	$68.9	36.6%	21.7%	41.7%
1960	175.6	2.1	13.4	5.4	18.8	16.9	33.8	22.3	43.9
1961	179.4	1.9	13.8	5.3	19.1	25.7	37.7	20.8	41.5
1962	189.7	1.9	15.3	4.9	20.2	21.6	38.2	20.0	41.8
1963	250.4	2.6	15.5	4.9	20.4	29.3	28.8	26.0	45.2
1964	265.1	2.4	17.0	6.0	23.0	40.7	29.6	23.7	46.7
1965	274.8	2.0	18.5	7.5	26.0	47.0	36.7	19.7	43.6
1966	365.0	2.4	20.4	9.8	30.2	50.8	30.8	18.5	50.7
1967	353.7	2.1	23.0	9.5	32.5	53.2	34.0	18.8	47.2
1968	**358.4**	**2.1**	**25.4**	**8.6**	**34.0**	**33.2**	**34.6**	**17.8**	**47.6**

COSTS

The cost of goods sold as a percentage of net sales declined by 1.4 per cent to 76.9 per cent. This results from a combination of two main factors — U.K. devaluation and operating efficiencies. In the case of devaluation, the cost of U.K. goods sold in overseas markets declined more than the selling price to the consumer. The 1.4 per cent decline in costs is particularly impressive after considering that it includes overhead and other cost penalties incurred during the shut-down of plants in North America because of strikes. As can be seen in the financial highlights on page 3, the average number of employees has remained almost unchanged during the year.

Marketing, general and administrative expenses increased by $5.3 million, largely because of the increased cost of expanding into the ICM market plus general cost increases, particularly in fringe benefits. Engineering expenses have declined by $0.9 million.

In spite of a net long-term debt reduction, higher rates on loans negotiated in the past two years have resulted in $1.6 million greater long-term debt expense. The $2.8 million increase in bank and other short-term interest reflects the continuing high short-term money rates

		SHAREHOLDERS' EQUITY		INCOME DISTRIBUTION				
Exchange	Total Net Income (Loss)	Total	Return on Equity	Dividends on Preferred Shares	Net Income (Loss) for Common Shares	Dividends on Common Shares	Income Retained	YEAR
$(1.9)	$21.0	$193.9	10.8%	$1.1	$19.9	$ 4.7	$15.2	1959
3.0	13.2	200.9	6.6	1.4	11.8	4.8	7.0	1960
4.8	15.2	210.8	7.2	1.4	13.8	4.9	8.9	1961
2.4	18.1	222.8	8.1	1.4	16.7	4.9	11.8	1962
0.1	24.1	253.5	9.5	1.4	22.7	6.6	16.1	1963
(1.9)	45.0	290.4	15.5	0.7	44.3	8.1	36.2	1964
1.0	40.1	323.4	12.4	—	40.1	13.5	26.6	1965
0.5	45.2	428.6	10.6	—	45.2	17.4	27.8	1966
(0.9)	26.6	437.2	6.1	—	26.6	18.1	8.5	1967
(1.3)	**28.4**	**447.4**	**6.3**	**—**	**28.4**	**18.1**	**10.3**	**1968**

SHAREHOLDERS			PER COMMON SHARE					
	Shares Outstanding							
Shareholders	Preferred	Common	Sales	Net Income (Loss)	Dividends	Income Retained	Equity	YEAR
41,459	259,860	12,075,911	39.38	$1.65	$0.40	$1.25	$13.79	1959
42,171	259,665	12,098,471	40.54	0.97	0.40	0.57	14.34	1960
40,089	259,610	12,200,868	42.56	1.13	0.40	0.73	15.03	1961
40,359	254,834	12,268,599	48.59	1.36	0.40	0.96	15.97	1962
40,363	254,748	13,495,948	50.81	1.68	0.50	1.18	16.81	1963
33,799	—	14,820,038	52.09	3.04	0.57	2.47	19.60	1964
34,884	—	15,059,025	53.69	2.66	0.90	1.76	21.48	1965
40,186	—	18,129,314	51.42	2.50	1.00	1.50	23.64	1966
42,304	—	18,130,670	50.37	1.47	1.00	0.47	24.11	1967
43,527	**—**	**18,130,670**	**50.56**	**1.57**	**1.00**	**0.57**	**24.68**	**1968**

around the world and higher finance company debt.

EXCHANGE ADJUSTMENT

Financial statements of subsidiary companies outside Canada are prepared in local currency and translated to Canadian dollars following generally accepted accounting principles of exchange translation. Exchange rates prevailing at October 31 were used to translate net working capital and long-term debt, except at October 31, 1967, in the case of United Kingdom companies where it was considered more realistic to adjust the rate to reflect the 14.3 per cent devaluation of the pound sterling which took place on November 18, 1967. Exchange rates prevailing at time of acquisition were used for translation of investments, fixed assets and depreciation provisions. Income and expense items (other than depreciation provisions) were translated at average exchange rates prevailing throughout the year. Apart from the United Kingdom, Brazil is the only country where we have a significant manufacturing operation that experienced a devaluation during fiscal 1968. The Brazilian cruzeiro devalued 18.5 per cent in January, 13.0 per cent in August and 1.4 per cent in September. The last devaluation reflects a change in government policy whereby more frequent but somewhat smaller devaluations, more in line with internal inflation, are expected to occur. These Brazilian devaluations resulted in a loss of approximately $0.5 million. A further 1.9 per cent devaluation occurred in November and 1.6 per cent in December 1968, but due to the relatively minor amounts involved this will be taken into the accounts in the normal fashion during fiscal 1969.

Exchange gains or losses from the translation practices outlined above are reflected in the Consolidated Statement of Income, and in 1968 they resulted in $1.3 million net expense. Except for the Brazilian devaluation loss, the major portion of this expense results from further weakening of sterling since the date of devaluation.

INCOME TAXES

Income taxes of $16.4 million for the current year are up $2.7 million from 1967. The current provision for taxes, before reductions due to tax credits, is at the rate of 43.3 per cent compared with 41.7 per cent in 1967. The tax credits resulting from investment allowances, carry-forward of prior years' losses in some subsidiaries, and tax adjustments relating to prior years, totalled $3.0 million, differing little from the $3.1 million in 1967. After deducting these credits, the effective tax rate is 36.6 per cent in 1968 compared with 34.0 per cent in 1967.

At October 31, 1968, certain subsidiary companies have loss balances still available to be carried forward against income earned in 1969 and subsequent years. At current rates these losses would result in future years' tax credits of approximately $2.1 million if corresponding income is realized.

The companies making up the consolidation follow the tax allocation principle of providing for income taxes. Under this principle a liability for deferred income taxes is set up with respect to any excess of capital cost allowances claimed for tax purposes over depreciation recorded in the accounts, and prepaid income taxes are set up with respect to various provisions made for accounting purposes which do not become deductible for tax purposes until the year of expenditure. Such prepaid taxes amounted to $17.6 million in 1968. They are grouped in "Prepaid expenses and other current assets". The corresponding amount for 1967 was $14.0 million and, although it was originally netted against "Income, sales and other taxes payable", the 1967 figures have been reclassified for comparative purposes. This has resulted in the figures for "Prepaid expenses and other current assets" and "Income, sales and other taxes payable" each being $14.0 million higher than those originally published for 1967.

WORKING CAPITAL

Working capital was $358.4 million at October 31, 1968, an increase of $4.7 million from the previous year-end. The current ratio was unchanged at 2.1 to 1. Bank indebtedness and short-term notes payable decreased by $17.8 million. Inventories have remained virtually unchanged while receivables increased $35.3 million, reflecting the surge in sales during the last quarter of 1968. Prepaid expenses, largely taxes, increased $5.8 million while taxes payable increased $6.1 million.

INVESTMENTS IN ASSOCIATED COMPANIES

In early 1968, pursuant to our manufacturing agreement with the Mexican government, MF de Mexico issued additional common shares for ultimate distribution to Mexican nationals. As a result of this action, 51 per cent of the shares are either being held in trust by a Mexican bank or are owned by local investors. Consequently, the Mexican company is now classified as an associated company and does not form part of the 1968 consolidation. Although included in the 1967 consolidation, the

figures are not large enough to result in any distortion of the comparative results.

A deposit related to the purchase of 34 per cent of the shares of Société Mécanique et Automobile (SOMA), a French group of companies manufacturing transmissions and axles, forms part of the increase in associated companies. The closing formalities were completed in December 1968 and instalment payments will be made throughout 1969.

Further investments were made in Motor Iberica S.A. in Spain and in Motores Perkins S.A. in Mexico. In addition, this classification includes investments in India, Argentina and Morocco which were unchanged during the year.

Sales by associated companies exceeded $110 million for the year. The consolidation does not reflect MF's equity in these sales or the related income. Income received from associated companies in the form of dividends is included in "Interest, finance charges and miscellaneous income." Since these are growth companies, re-investing most of their income to finance expansion, the income received has not been substantial up to this time.

CAPITAL EXPENDITURES

For the first time since 1960 capital expenditures, at $33.1 million, fell below the depreciation and amortization for the year. This is the result of a vigorous reassessment and cut-back of all but the most essential new projects. Several major programs carried forward from earlier years, such as office facilities at Peterborough, England, the ICM plants at Aprilia, Italy and Akron, U.S.A., a transmission and axle plant and a mixing warehouse both at Detroit. U.S.A., were equipped and completed early in the year without a corresponding number of new projects being initiated.

While there was a considerable reduction in 1968 in expenditures for buildings and equipment, tooling for new and future products increased slightly and made up 25 per cent of the expenditures compared with 15 per cent in 1967. In spite of this the removal of fully amortized tooling exceeded expenditures for the year.

An expansion of the ICM facilities at Aprilia is already under way. In the Perkins sector, expansion of engine facilities continues, and further expenditures are being made in the engineering and testing facilities at Peterborough. In North America, in addition to tooling expenditures totalling $3.0 million, the updating of facilities continued and work commenced on new warehouses at Saskatoon and Winnipeg, Canada.

Capital expenditures for 1969 are expected to be higher than for 1968 but not as high as the $53.2 million spent in 1967.

PROVISION FOR DEPRECIATION OF FIXED ASSETS AND AMORTIZATION OF PRODUCTION TOOLING

Depreciation of facilities is provided at rates that have been designed to write off these assets over a conservatively estimated useful life. Production tooling for a new product or a major product change is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements for minor product changes is charged against income at the time of purchase. In countries where "declining balance" depreciation is

GEOGRAPHICAL DISTRIBUTION OF ASSETS EMPLOYED

(MILLIONS OF DOLLARS)

	1968	1967	1966	1965	1964
NORTH AMERICA	**458.5**	458.1	382.4	317.3	277.4
EUROPE	**368.4**	350.3	345.1	321.3	255.2
LATIN AMERICA	**46.8**	48.7	46.3	31.1	27.9
AUSTRALIA	**42.9**	43.8	44.7	42.7	38.1
AFRICA	**21.1**	22.7	25.1	27.0	20.5
ASIA	**2.2**	2.2	2.2	2.2	2.3
TOTAL	**939.9**	925.8	845.8	741.6	621.4

allowed for income tax returns, such allowances are claimed, but the books are maintained on a "straight-line" method of depreciation unless prohibited by government regulation. Depreciation and amortization in 1968 amounted to $34.0 million compared with $32.5 million in 1967.

LONG-TERM DEBT

During the year Massey-Ferguson ICM (Italy) took out second and third mortgage loans totalling $3.9 million at 4 per cent maturing 1972 to 1983. This is part of the financing arrangements for our new industrial and construction machinery plant near Aprilia, Italy. A government grant available to industry making capital expenditures in the south of Italy will be received in the new year and is expected to be approximately $1.0 million.

The $16.1 million balance of the $32.1 million Massey-Ferguson Holdings Limited 7½ per cent loan stock arranged in 1967 was drawn down as scheduled in January 1968. Interest on this loan, plus increased interest on the Massey-Ferguson Holdings $26.2 million loan, which interest rate moves relative to the Bank of England rediscount rate, account for the increased long-term interest expense in 1968.

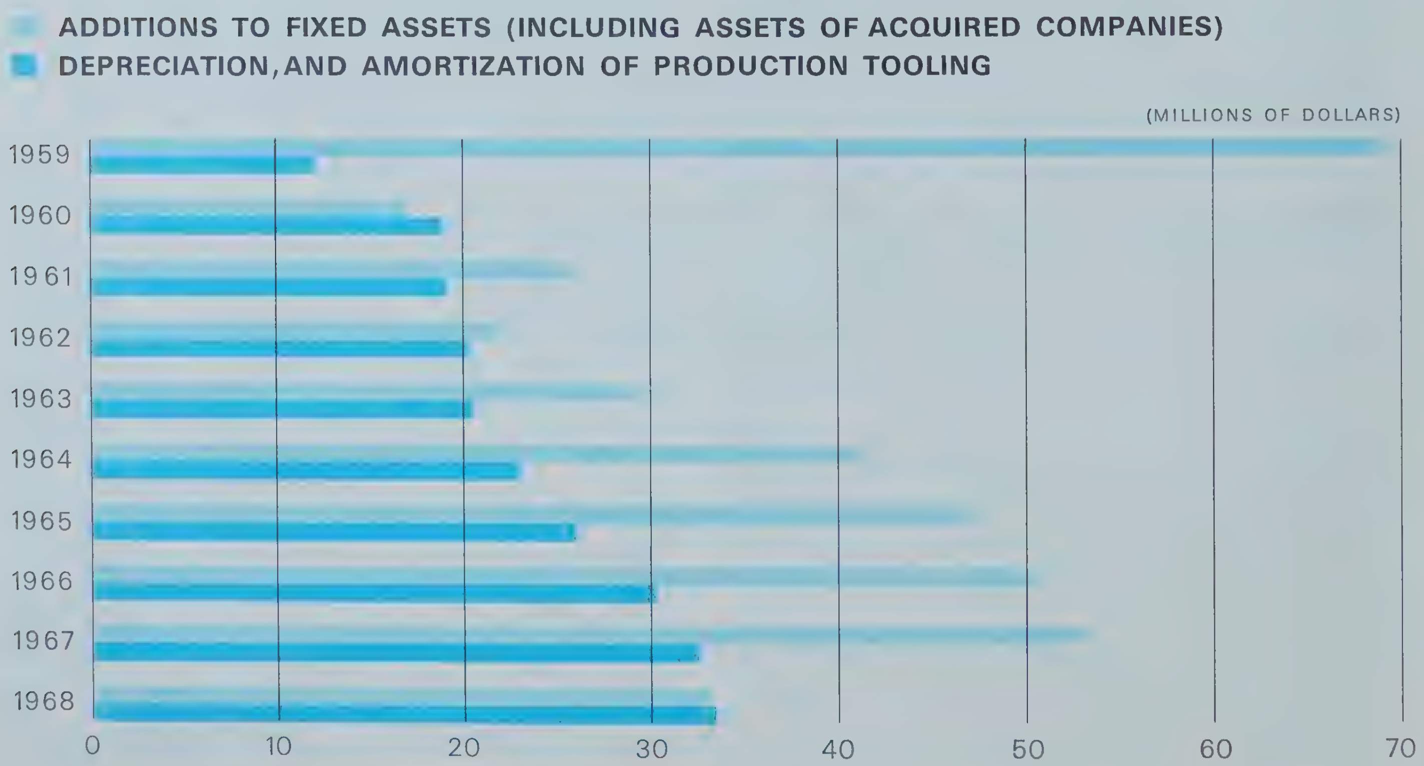
Repayments of long-term debt during 1968 totalled $13.3 million. Scheduled 1969 repayments total $13.0 million.

FINANCE COMPANIES

The combined profit of the Finance Companies at $2.9 million after taxes was almost unchanged from last year despite the higher general levels of interest rates. Notes receivable increased by $23.0 million to $220.4 million. The interest income from these notes makes up the major portion of "Interest, finance charges and miscellaneous income" on the Consolidated Statement of Income.

Massey-Ferguson Credit Corporation (U.S.A.) arranged $22.5 million 7⅝ per cent Senior Notes (of which $8.9 million will not be issued until 1969) and $5.6 million 7⅞ per cent Subordinated Notes, both maturing in 1988.

After the year end, Massey-Ferguson Finance Company of Canada Limited issued $6.0 million 8½ per cent Subordinated Notes maturing in 1983.



NET SALES BY TERRITORIES
(MILLIONS OF DOLLARS)

TERRITORIES	1968 % of Total	1968 Amount $	1967 $	1966 $	1965 $	1964 $	1963 $	1962 $	1961 $	1960 $	1959 $
NORTH AMERICA											
CANADA	*7.9*	**72.2**	91.2	96.3	89.2	81.7	76.5	62.8	52.5	61.8	55.6
UNITED STATES	*30.2*	**277.4**	284.5	290.3	225.3	188.3	166.5	145.1	136.7	144.4	162.1
TOTAL	*38.1*	**349.6**	375.7	386.6	314.5	270.0	243.0	207.9	189.2	206.2	217.7
EUROPE											
UNITED KINGDOM	*11.3*	**103.3**	102.8	103.3	90.6	95.4	91.8	78.7	76.3	65.5	69.3
FRANCE	*11.0*	**100.6**	96.2	103.0	92.9	92.2	80.2	71.7	62.3	56.0	63.7
GERMANY	*4.2*	**38.5**	31.1	46.6	46.2	47.1	37.6	38.9	34.2	20.3	15.1
ITALY	*3.6*	**33.4**	30.9	27.5	24.2	20.6	19.5	14.5	7.6	3.3	1.9
SCANDINAVIA	*3.5*	**32.1**	36.0	41.6	37.1	37.9	31.6	37.9	31.7	22.5	18.5
BENELUX	*0.9*	**8.2**	7.2	11.1	8.8	8.0	5.8	7.5	6.6	5.1	4.1
AUSTRIA	*0.6*	**6.0**	6.7	7.6	5.8	4.7	4.9	6.0	4.6	3.6	2.1
SPAIN	*0.5*	**4.4**	5.8	4.8	3.6	4.0	5.1	6.2	2.3	0.7	0.9
PORTUGAL	*0.4*	**3.8**	2.1	4.2	2.5	1.5	1.1	1.3	1.1	1.1	0.9
GREECE	*0.4*	**3.6**	3.0	2.9	2.8	2.4	1.5	1.0	0.7	1.1	1.4
OTHER	*0.4*	**4.0**	4.3	3.3	3.9	5.9	3.7	4.6	6.9	11.9	8.9
TOTAL	*36.8*	**337.9**	326.1	355.9	318.4	319.7	282.8	268.3	234.3	191.1	186.8
AUSTRALASIA	*7.1*	**64.7**	62.5	57.7	55.3	57.7	47.5	38.8	34.7	37.9	29.8
AFRICA											
REPUBLIC OF SOUTH AFRICA	*4.2*	**38.1**	36.7	28.2	31.1	32.5	28.4	22.0	11.8	10.5	7.1
ALGERIA	*0.8*	**7.2**	5.1	2.8	2.2	1.7	2.2	0.9	2.2	4.8	4.3
OTHER	*1.9*	**17.6**	16.6	15.5	14.2	10.6	12.4	8.3	6.2	8.1	7.0
TOTAL	*6.9*	**62.9**	58.4	46.5	47.5	44.8	43.0	31.2	20.2	23.4	18.4
LATIN AMERICA											
BRAZIL	*4.5*	**41.1**	22.2	26.4	21.0	31.1	20.5	10.7	5.8	2.1	.2
MEXICO	*1.2*	**11.1**	12.8	10.4	8.1	6.7	5.0	4.2	3.0	2.3	2.0
OTHER	*1.5*	**13.7**	11.2	12.3	12.1	14.9	11.2	11.1	9.9	8.5	6.0
TOTAL	*7.2*	**65.9**	46.2	49.1	41.2	52.7	36.7	26.0	18.7	12.9	8.2
ASIA											
TURKEY	*1.5*	**13.2**	14.7	11.0	7.4	6.3	10.4	3.4	1.6	1.1	1.7
PAKISTAN	*0.2*	**1.7**	6.6	2.6	2.0	2.4	1.9	1.6	1.3	0.5	0.4
INDIA	*0.1*	**1.4**	2.2	3.8	5.0	3.2	3.8	4.1	5.4	8.1	3.3
OTHER	*2.1*	**19.5**	20.9	18.9	17.2	15.2	16.6	14.8	13.9	9.2	9.2
TOTAL	*3.9*	**35.8**	44.4	36.3	31.6	27.1	32.7	23.9	22.2	18.9	14.6
TOTAL	*100.0*	**916.8**	913.3	932.1	808.5	772.0	685.7	596.1	519.3	490.4	475.5

NET SALES BY QUARTERS
(MILLIONS OF DOLLARS)

3 MONTHS ENDED	1968 % of Total	1968 Amount $	1967 $	1966 $	1965 $	1964 $	1963 $	1962 $	1961 $	1960 $	1959 $
JANUARY 31	*18.1*	**165.7**	162.4	179.5	138.8	145.5	110.4	96.6	86.8	87.9	82.5
APRIL 30	*26.5*	**242.6**	268.5	263.8	193.1	218.2	189.4	167.2	141.8	133.1	142.8
JULY 31	*24.4*	**224.2**	236.5	239.9	234.4	223.4	180.4	154.1	133.7	131.2	137.7
OCTOBER 31	*31.0*	**284.3**	245.9	248.9	242.2	184.9	205.5	178.2	157.0	138.2	112.5
TOTAL	*100.0*	**916.8**	913.3	932.1	808.5	772.0	685.7	596.1	519.3	490.4	475.5

NET SALES BY PRODUCTS
(MILLIONS OF DOLLARS)

PRODUCTS	1968 % of Total	1968 Amount $	1967 $	1966 $	1965 $	1964 $	1963 $	1962 $	1961 $	1960 $	1959 $
FARM MACHINERY											
TRACTORS	*37.5*	**343.6**	362.8	389.0	317.9	317.3	298.2	263.3	227.0	221.4	215.3
GRAIN HARVESTING	*16.0*	**146.6**	152.0	157.5	142.2	128.3	97.0	83.8	84.4	86.4	100.5
HAY HARVESTING	*3.1*	**28.3**	29.4	34.7	35.0	34.6	34.0	29.8	26.0	28.7	29.5
OTHER PRODUCTS	*9.8*	**89.9**	94.1	86.6	77.7	64.9	57.5	49.7	46.8	57.5	56.7
TOTAL	*66.4*	**608.4**	638.3	667.8	572.8	545.1	486.7	426.6	384.2	394.0	402.0
ENGINES	*12.1*	**111.1**	101.5	98.9	94.9	93.9	81.3	70.8	52.4	47.7	24.6
INDUSTRIAL AND CONSTRUCTION MACHINERY											
TRACTORS	*7.7*	**71.2**	59.9	51.6	38.4	32.9	27.7	23.1	16.1		
OTHER PRODUCTS	*2.7*	**24.6**	19.3	23.3	20.4	20.1	17.0	12.8	11.3		
TOTAL	*10.4*	**95.8**	79.2	74.9	58.8	53.0	44.7	35.9	27.4		
PARTS	*11.1*	**101.5**	94.3	90.5	82.0	80.0	73.0	62.8	55.3	48.7	48.9
TOTAL	*100.0*	**916.8**	913.3	932.1	808.5	772.0	685.7	596.1	519.3	490.4	475.5

FARM MACHINERY GROUP

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1. A major innovation introduced in 1968, and one which has been particularly well received, is the *Quick-Attach* feature for combines. *Quick-Attach* permits the farmer to convert his machine from one harvesting operation to another in five minutes or less with a little practice. Previously it took several man-hours. With *Quick-Attach* it is possible to harvest corn in the morning, switch attachments, and bring in soy beans in the afternoon. *Quick-Attach* heads can be conveniently transported lengthwise on a special trailer behind the combine. This is an important advantage at narrow gates and when negotiating highways on which there are restrictions on the widths of vehicles. In the photograph an MF 510 combine is shown with (left to right) corn, grain and swath pick-up heads, incorporating the *Quick-Attach* feature.

2. In addition to the *Ski Whiz* (inside front cover), MF's Special Products line includes 7, 10 and 12 horsepower lawn and garden tractors for which over 30 attachments are sold to do a variety of jobs from mowing and snow removal to plowing and cultivating.

3. The MF 187 combine is a new product of German Operations. Built at the factory in Eschwege, the MF 187 is designed primarily to meet European harvesting conditions. A variation called a bagger-tanker combine, which will harvest grain either in bulk or in sacks, is being produced especially for export to the Middle East, Africa and South America. In these areas bulk handling facilities are limited and a sizeable proportion of the crop is harvested in bags.

4. MF's most recent entry in the large tractor field is the MF 1080. This 90-plus engine horsepower machine, which is produced in row crop, tricycle and western versions, helps supply the burgeoning market for tractors in the higher horsepower categories. MF also manufactures two models in the over-100 engine horsepower range—the MF 1100 and MF 1130.

On February 16, 1968, a 145,000 square-foot MF tractor plant was inaugurated at Queretaro, Mexico. The plant, which is the first in Mexico designed specifically for the manufacture of tractors, is operated by Massey-Ferguson de Mexico S.A.; an associated MF company. To comply with government regulations concerning the ownership of foreign subsidiaries, MF agreed to sell a substantial interest in the Mexican company to Mexican investors. Currently, MF 165 and MF 178 tractors with 60 per cent Mexican content are being built at Queretaro. Eventually production will be expanded to include other tractor models, ploughs, planters, tool bars and rotary cutters as well as rear-axle assemblies and housings for export to other MF plants. Shown at the inauguration ceremony are left to right, Albert A. Thornbrough, MF President; Octaviano Campos Salas, Minister of Industry and Commerce for Mexico; William Reed-Lewis, President of Massey-Ferguson de Mexico; and Juventino Castro Sanchez, Governor of the State of Queretaro.

factories, products manufactured

FARM MACHINERY GROUP

INDUSTRIAL AND CONSTRUCTION MACHINERY GROUP

AUSTRALIA

BENDIGO (45,525 sq. ft.) — Front-end Loaders; Dozer Blades; Rippers; Non-current Spare Parts.

BUNDABERG (30,303 sq. ft.) — Sugar Cane Harvesters and associated equipment.

MELBOURNE (Sunshine) (1,535,819 sq. ft.) — MF585 Headers (Self-propelled and Pull-type Combines); Mowers; Drills; Hay Rakes; Foragers; Tillers; Cultivators; Harrows; Bale Loaders; Mouldboard, Disc and Chisel Plows; Spinner Broadcasters; Post Hole Diggers; Jib Cranes; Toolbar Planters; Earth Scoops; Multi-purpose Blades; Cordwood Saws; Scarifiers; Subsoilers; Transporters; Rotary Cutters; Pressed Steel Chain; Bright Steel Shafting.

BRAZIL

PORTO ALEGRE, (108,533 sq. ft.) — Disc Plows; Disc Harrows; Planters; Rotary Cutters; Blade Terracers; Transporter Boxes.

SAO PAULO (165,433 sq. ft.) — MF50 and MF65 Tractors.

CANADA

BRANTFORD (North American Combine Plant) (702,000 sq. ft.) — MF205, MF300, MF410 and MF510 Self-propelled Combines; MF405 Pull-type Combine; Combine Cabs.

BRANTFORD ("M" Foundry) (192,000 sq. ft.) — Castings for Massey-Ferguson plants.

BRANTFORD (Verity Plant) (523,000 sq. ft.) — Mouldboard and Disc Plows; Disc Harrows; Spring Tooth Harrows; Subsoilers; Mowers; Side Delivery Rakes; Mounted Tillers; Cultivators; Wheeled Hitches; Hay Conditioners.

MONTREAL (115,000 sq. ft.) — Full line of Wooden Office Furniture.

TORONTO (1,899,000 sq. ft.) — Balers; Self-propelled and Pull-type Swathers; Pick-ups; Components for other assembly locations.

WATERLOO, (286,000 sq. ft.) — Full line of Modern Steel Office Furniture; Steel Shelving and Lockers; Steel Garage Doors; Steel Stampings.

DENMARK

LANGESKOV (20,000 sq. ft.) — Plows; Cultivators.

FRANCE

BEAUVAIS (663,059 sq. ft.) — MF122, MF130, MF133, MF135, MF140, MF145, MF165 and MF178 Agricultural Tractors.

MARQUETTE (964,352 sq. ft.) — MF510-8, MF410-8 and MF99-8 Self-propelled Combines; Balers; Mowers; One-way Discs; Disc Harrows; Mouldboard Plows; Tillers; Cultivators; Trailers.

GERMANY

ESCHWEGE (587,565 sq. ft.) — MF30, MF31, MF39 (Rice), MF186 MF187 Combines; Mounted Presses and Straw Choppers for Combines; Forage Harvesters; Roller Chain; Pick-Up Presses.

ITALY

APRILIA (500,000 sq. ft.) — Wheel Loaders; Crawler Tractors; Hydraulic Excavators.

COMO (115,000 sq. ft.) — Diesel Engines; Tractor Components.

FABBRICO (380,000 sq. ft.) — R3000, R5000, R7000, R8000 DT5000, DT7000, DT8000 Landini 2- and 4-Wheel Drive Agricultural Tractors; C4000, C5000 Landini Agricultural Crawler Tractors; MF44, MF Super 44 Agricultural Crawler Tractors.

MALAWI

BLANTYRE (12,000 sq. ft.) — Hoes.

SOUTH AFRICA

VEREENIGING (440,111 sq. ft.) — Maize Harvesters; Mouldboard, Disc and Chisel Plows; Harrows; Cultivators; Tillers; Rotary Hoes; Maize, Cotton and Peanut Planters; Bean Lifters; Toolbars; Earth Scoops; Subsoilers; Multi-purpose Blades; Combination Cutter Hammermills Rotary Cutters; Animal Draft Implements; Hay Rakes; Buckets; Graders; Loaders and Loader Attachments.

RHODESIA

BULAWAYO (55,500 sq. ft.) Animal Draft Implements; Hoes; Groundnut Shellers.

UNITED KINGDOM

BAGINTON (359,433 sq. ft.) — Machining of tractor components, automatic zinc plating.

COVENTRY (Banner Lane) (1,465,926 sq. ft.) MF135, MF165, MF175S, MF178 Agricultural Tractors; MF2203, MF2205, MF3303, MF3305 Industrial Wheel Tractors; Axles; Gearboxes; Other Components.

KILMARNOCK (762,976 sq. ft.) — MF400, MF410, MF415, MF510, MF515 and MF788 Combines; MF732 Mower; Tractor Accessories.

MANCHESTER (Barton Dock Road) (510,867 sq. ft.) — Drills; Fertilizer Attachments; Tractor-loaders; Tractor-backhoe-loaders.

UNITED STATES

ALGOMA (75,000 sq. ft.) — MF7, MF10 and MF12 Lawn and Garden Tractors; Rotary Mowers; Rotary Tillers; SKI WHIZ Snowmobile.

DES MOINES (North American Implement Plant) (570,000 sq. ft.) — Corn Heads; Rotary Hoes; Drills; Planters; Listers; Disc Harrows; Chisel Plows; Manure Spreaders.

AKRON (Industrial and Construction Machinery Plant) (359,000 sq. ft.) — 2- and 4-Wheel-Drive Loaders; Crawler Dozers and Loaders; Fork-lifts; Tractor-loaders; Tractor-backhoe-loaders; Landscaping Equipment; Forestry Crawlers.

DETROIT (North American Tractor Plant) (550,000 sq. ft.) — MF135, MF150, MF165, MF175, MF180, MF1080, MF1100 and MF1130 Agricultural Tractors; MF20, MF30, MF40 Industrial Wheel Tractors.

DETROIT (Transmission and Axle Plant) (314,000 sq. ft.) — Transmissions and Axles for tractor assembly plant and Components for other plants.

FOWLER (68,572 sq. ft.) — Cultivators; Disc Harrows; Spring Tooth Harrows; Reversible Disc Plows; Tool Carriers; Fork Lifts; Utility and Terrace Blades.

KAUKAUNA (Main Plant) (82,000 sq. ft.) — Badger Barn Cleaners; Silo Unloaders; Tube and Bunk Auger Feeders; Chain Conveyors; Dump Carts; Components for other Kaukauna and Algoma Plants.

KAUKAUNA (North Plant) (34,000 sq. ft.) — Self-Unloading Boxes; Forage Harvesters and Blowers; Mixer Mills; Silage Distributors; Forage Wagons; Hay and Corn Heads.

ENGINES GROUP

AUSTRALIA, Dandenong (16,160 sq. ft.) Assembly of industrial diesel engines; engine reconditioning.

BRAZIL, Sao Paulo (155,000 sq. ft.) — Diesel Engines.

FRANCE, Paris (152,500 sq. ft.) — Diesel Engines.

UNITED KINGDOM, Fletton (130,000 sq. ft) — V8.510 Diesel Engines; Peterborough (Eastfield) (1,286,825 sq. ft.) High Speed Diesel Engines for marine, automotive, agricultural and industrial purposes; Peterborough (Queen St.) (120,510 sq. ft.) — Engine reconditioning; Peterborough (Walton) (169,500 sq. ft.) — Gears and Engine Components.

ASSOCIATED COMPANIES

ARGENTINA: Perkins Argentina S.A.I.C., Cordoba (161,000 sq. ft.) — Diesel Engines.

INDIA: Tractors and Farm Equipment Limited, Madras (150,000 sq. ft.) — MF35 Tractors and Implements.

MEXICO: Massey-Ferguson de Mexico S.A., Queretaro (145,000 sq. ft.) — MF165 and MF178 Tractors; Motores Perkins S.A., Toluca (78,000 sq. ft.) — Diesel Engines.

MOROCCO: COMAGI, Casablanca (10,000 sq. ft.) — MF135, MF165, MF 178 Tractors.

SPAIN: Motor Iberica S.A., Avila (251,350 sq. ft.) — Vans; Barcelona 321,607 sq. ft.) — Tractors, Trucks; Barcelona (178,450 sq. ft.) — Sheet Metal Components; Madrid (110,000 sq. ft.) — Diesel Engines; Noain (107,424 sq. ft.) — Combines; Zaragoza (70,554 sq. ft.) — Implements.

THE MASSEY-FERGUSON GROUP OF COMPANIES

BRAZIL

- MOTOTRAC-MAQUINAS e MOTORES LIMITADA
  Sao Paulo, Brazil
  - MASSEY-FERGUSON DO BRASIL S.A.
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  - MINUANO, S.A.
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AUSTRALIA

- MASSEY-FERGUSON HOLDINGS (AUSTRALIA) LIMITED
  Sunshine, Australia
  - MASSEY-FERGUSON (AUSTRALIA) LIMITED
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    - CRICHTON INDUSTRIES PTY. LTD.
      Bundaberg, Australia
- PERKINS ENGINES PTY. LIMITED
  Dandenong, Australia

SOUTH AFRICA, RHODESIA AND MALAW

- MASFERGO HOLDINGS (SOUTH AFRICA) (PROPRIETARY) LIMITED
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  - MASSEY-FERGUSON (SOUTH AFRICA) LIMITED
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    - SOUTH AFRICAN FARM IMPLEMENT MANUFACTURERS LIMITED
      Vereeniging, South Africa
    - RHODESIAN PLOUGH AND MACHINERY COMPANY (1948) LIMITED
      Bulawayo, Rhodesia
      - AGRIMAL (MALAWI) LIMITED
        Blantyre, Malawi
- PERKINS ENGINES (PROPRIETARY) LIMITED
  Johannesburg, South Africa

The Massey-Ferguson Group of Companies is involved with three main product lines — farm machinery, industrial and construction machinery and engines. Each company engaged in the manufacture, distribution, sale or financing of one or more of these product lines is identified by colour as follows:

Legend

- Farm Machinery (red)
- Industrial and Construction Machinery (yellow)
- Engines (blue)

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PRINTED IN CANADA
Sampson-Matthews Limited

Massey-Ferguson Limited

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INDUSTRIAL & CONSTRUCTION MACHINERY
ENGINES